REPORT

of the

ONTARIO HIGHWAY TRANSPORT BOARD

to the

HONOURABLE JAMES W. SNOW
Minister of Transportation and Communications

on

The Balance Of Trade In International Trucking Services Between The United States Of America And Canada

****

July 30, 1983

The Honourable James Snow
Minister of Transportation and
Communications
Ferguson Block
Queen's Park
Toronto, Ontario

Dear Sir:

I have the honour to submit this report, of the Ontario Highway Transport Board, in response to your direction dated the 19th day of April, 1983, pursuant to section 39 of The Public Commercial Vehicles Act.

I would be remiss if I did not express the Board's appreciation for the contributions made by the public. These contributors represented, not only themselves, but corporations and associations. Many had only the Canadian public interest in mind.

Yours respectfully,

G. C. Marrs
Chairman

/mw

Ontario

Ontario
Highway
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Board

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IN THE MATTER OF "THE PUBLIC COMMERCIAL VEHICLES ACT" R.S.O. 1980, Chapter 407,

AND IN THE MATTER OF THE direction by the Honourable Minister of Transportation and Communications, pursuant to the provisions of Section 39 of the Public Commercial Vehicles Act R.S.O. 1980, Chapter 407 to the Ontario Highway Transport Board to examine and investigate such matters as may be necessary to determine and report upon firstly, if a major shift of the balance of trade in trucking services is likely and secondly, what effect such a shift would have on the trucking industry, and the service to Ontario shippers, receivers and consumers.

REPORT

The terms of reference of the direction to the Ontario Highway Transport Board are as contained in the letter dated April 19, 1983 from the Honourable Minister of Transportation and Communications which reads as follows:

"April 19, 1983

Mr. George C. Marrs
Chairman
Ontario Highway Transport Board
10th Floor
151 Bloor Street
Toronto, Ontario
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Dear Mr. Marrs:

A policy statement issued pursuant to the provisions or The Public Commercial Vehicles Act, R.S.O. 1970, Chapter 375, (now R.S.O. 1980 chapter 407) effective 11th August, 1979 sets out a number of matters to be considered by the Ontario Highway Transport Board in the hearings it conducts. This policy statement highlights the need for an efficient and viable transportation industry which, given the characteristics of the suppliers and the nature of the market to be served will support Ontario's general economic productivity.

The needs of our business community require a combination of intra-provincial and extra-provincial services. Important within the latter category are movements between the United States and Ontario. International movements are the subject of ongoing discussions between the Federal and Provincial governments and the Government of the United States, and all subscribe to providing full, fair and equitable opportunities among truckers from both Canada and the United States to compete for the carriage of international traffic.

We recognize that differences in the policies and economies of the two countries do exist. However, if these differences should result in a major shift in the balance of trade in trucking services, the result may be serious injury or detriment to the Ontario trucking industry and consequently, to the transportation services available to Ontario shippers and consumers.

You can appreciate from the foregoing the need for further information before any conclusions can be reached. In this regard, pursuant to Section 39 of the Public Commercial Vehicles Act, I hereby direct the Ontario Highway Transport Board to examine and investigate such matters as may be necessary to determine firstly, if a major shift in the balance of trade in trucking services is likely and secondly, what effect such a shift would have on the trucking industry and the service to Ontario shippers, receivers and consumers. I would ask that you seek input from the public, the business community and the trucking industry on as wide a range as possible and report to me your findings by July 31, 1983.

With kindest regards, I remain,

Yours sincerely,

James Snow,
Minister."

Under the date of April 19, 1983 a press release was issued by the Ministry of Transportation and Communications with respect to this direction and is attached hereto identified as Schedule A.

Pursuant to this direction the Board published notice (Schedule B) of its hearings in the Ontario Gazette dated May 14, 1983 and on two dates approximately two weeks apart in the daily newspapers enumerated in Schedule C.

The Board conducted hearings at the times and places indicated for each location shown and notwithstanding the provision in the Notice with respect to adding other locations no requests were received to enlarge upon the number of locations named. The hearings were completed in Toronto on July 13, 1983 by which time some 62 submissions, both oral and written, were received by the Board from persons, both individual and corporate, and various associations all of whom are listed in the attached Schedule D.

Throughout the course of the public submissions, written and oral, the Board had the benefit of the counsel of Mr. Dennis Brown, Q.C., Mr. John Zarudny both of the staff of the Attorney General and Mr. Robert Stocker Student-at-Law with the Ministry of Transportation and Communications. The Board acknowledges the services rendered by these gentlemen in assisting the Board in offering the public every opportunity to present its views in an informal but efficient manner.

It is clear from the public submissions that the historical development of North/South traffic is important in putting the Board's present inquiry into proper perspective. The international boundary between Canada and the United States has been crossed in all directions for as long as there has been satisfactory connections between the highways in the two jurisdictions. Between Ontario and the United States particular emphasis has been placed on the connecting bridges establishing as they do the main links. The link between Windsor and Detroit has been served, at least since the 1930's, initially by cartage operators in the City of Windsor who basically moved freight from the rail head or the Port of Windsor into the heart of the City of Windsor and who became the "bridge carriers" as they expanded their operations into Detroit. The major expansion came after World War II, as the truck traffic increased over this gateway, and served to link the common carrier operation in the United States with the common carrier operations in Canada neither group of carriers having shown any interest in crossing the border into the other jurisdiction. The peak of the bridge carriers activities was in the 1950's and early 1960's assisted by the defining by the Interstate Commerce Commission of Windsor as part of the Detroit commercial zone permitting them access to the greater Detroit area without the need for Interstate Commerce Commission authority. Following the passing of the Motor Vehicle Transport Act (Canada) in 1954 an extra-provincial operating licence was required. The passing of the latter Act would appear to be the watershed as post 1954 common carriers in Ontario serving Windsor showed an increasing interest in operating into the United States of America. This they did originally through the acquisition of an existing "bridge carrier" or applying under the Motor Vehicle Transport Act for the necessary authority. However this interest by the Ontario carriers extended only to the areas in the United States of America contiguous to Windsor and Detroit. The United States carriers still showed no interest in coming into Canada finding, it appears, the customs requirements, the highway regulations etc. different to the extent that they elected to interline first with the bridge carriers and later with both bridge and common carriers serving Detroit.

The commonality of interest between Windsor and Detroit was strengthened by the bonds uniting the auto industry on both sides of the border; bonds that did not exist over the Niagara River crossing at Fort Erie/Buffalo. Fort Erie was basically a transfer point for LTL freight moving between Ontario and Buffalo or for interline beyond Buffalo to points in the United States of America. No bridge carriers as such serviced this crossing, consequently when Ontario common carriers sought to extend service into the Buffalo area the route chosen was through application under the Motor Vehicle Transport Act but again the areas for which applications were made were generally contiguous to the border on the United States side and interlining between Ontario and United States carriers was and is the most common practice. The St. Lawrence River crossings are of more recent interest reflecting an improved highway network on the United States side and an increasing interest in an access route to the markets in the North Eastern United States.

The historical evolution has left in place transportation services between the United States and Canada with respect to both less than truckload (LTL) and truckload (T/L) traffic. The LTL services rely on interlining to a considerable degree with United States carriers over terminals in the United States immediately adjacent to the Canadian border e.g. Buffalo, New York whereas the majority of T/L operations have extended approximately 100-200 miles into the United States the distance limitation based on the practical consideration of maximizing the utilization factor through the availability of return moves from the United States to a location as close as possible to its objective in Ontario. The passing into law in the United States of the Motor Carrier Act 1980 with its attendant ease of entry has, it was submitted, the potential for the greatest impact on these services if a similar approach was followed in Canada and such impact would have a ripple effect on the intra transportation services and economy in Ontario.

Given that a "major shift in the balance of trade in trucking services" is equated with the adoption of a policy similar to that in the United States the impact would be immediate on the freight moving between interline carriers. This impact, it is submitted, would flow from the influx of single line established United States carriers into the south and western part of Ontario (see map Schedule E) many of whom would be those now interlining with the Ontario carriers on the United States side. On the other hand submissions were received to the effect that this influx of additional carriers into the market place would create a competitive environment that would result in better rates and service. In dealing with these divergent submissions certain factors emerged during the hearings, factors that are relevant to any evaluation of the impact aspect. It is clear that the issue is not one that can be segregated and resolved in isolation.

It is trite to say that there is a significant difference between the population of Canada and that of the United States of America which is generally acknowledged to be in the ratio of 1:10. The population difference is more significant when considered in terms of where the population densities are located on each side of the boundary. In general terms the population is 8,625,107 in Ontario and 6,438,403 in Quebec but the significant density of population is located along a strip extending approximately 100 miles from the border. The States abutting the boundary i.e. New York and Michigan can claim a population of approximately 27 million to which can be added other states within easy reach e.g. Ohio, Illinois and Pennsylvania adding to this figure an additional 33 million. The total population of these States is significantly larger than Canada and more particularly for this report the population on the Ontario/Quebec side. This of course is also representative of a more significant market area to be served. Reference may be had to Schedule E attached showing the population in Ontario and Quebec together with figures for each of the States in the United States. The

Board's attention was directed to the fact that an industrial shift from North to South in the United States has taken place; a shift that preceded but was accelerated by the energy crisis and one that has seen significant industrial growth in the States with more temperate climates e.g. Florida, Texas and California. Consequently there are markets to be served in the southern States that are of more significance today and altering to some degree the traditional industrial market areas of the northern United States.

Each commercial and industrial area on both sides of the border represents a market to be served by highway carriers in either the carriage of raw materials to be consumed in production or distribution or the shipment of finished products. To this date these markets have been served by interlining at a border crossing point LTL generally or by single line operations basically T/L between points in Canada and the United States. In some instances these overlap, but in general terms they are distinct, each with its own problems particularly with respect to further expansion by Canadian carriers into the United States of America. The T/L carriers utilize a variety of vehicles for transporting all classes of goods including liquid and dry bulk materials. The equipment utilized includes standard vehicles, low bed floats, wheeled vehicle trailers, tanks, dump trucks, possum belly livestock units, refrigerated vans, household furniture vans or special chassis adapted for intermodal containers. The efficiency of such operations, and hence the Canadian based carrier's ability to compete, is achieved through efforts to maximize the utilization of equipment and personnel both ways as it must return to its home base in contrast to a

United States based carrier who may have all 48 states in the United States as its market place to which the Canadian market is only incidental. The submissions made indicate that the distances and population density on both sides of the border works in favour of the United States based carrier over his Canadian counterpart in utilization. As a practical matter the Ontario based carrier has found it can compete within approximately 100-200 miles from the United States border on the United States side. This is due to one's ability to obtain freight from destination points in the United States back to Ontario points. Beyond this limit the availability of return freight is more difficult to locate with the result, in most cases, that he returns empty to Ontario.

The same distance on the Canadian side of the border catches the greatest part of the industrial/commercial area in Ontario and represents the most productive market for shipments to or from the United States. The United States based carrier bringing goods into Ontario from any point in the United States can solicit freight from points in Ontario back to points in the United States and if successful utilization is maximized but more significantly if freight is not available in Ontario the empty run to the United States border points where freight moving intra the United States of America is more readily available is no more than the distance travelled into Ontario.

It is important to note that both United States and Canadian carriers may, within their appropriate operating authorities, carry freight between points in Ontario and points in the United States hence the laws apply equally to both. The immigration laws of both jurisdictions are reportedly similar in that neither carrier may operate within (i.e. pick-up and deliver) the others' jurisdiction. This restriction has less impact on the United States based carrier using a United States driver. In the absence of freight directly back into the United States, the empty miles such carrier has to run before reaching its home jurisdiction where the possibilities of intra United States movement increases markedly is no more than the distance travelled into Canada i.e. approximately 100 miles. This distance can be insignificant in terms of the total distance travelled back to its home base in the United States of America. It has been noted that the Canadian based carrier can compete operating from within approximately 100-200 miles on the United States side the same conditions applying to him as to his United States counterpart within Canada.

However beyond this limit freight available to points in Ontario is not as readily available. The Canadian based carrier being precluded from operating intra the United States, while using a Canadian driver, must return to the Canadian side empty, a practice which it was reported results in an operating loss that cannot be carried without a detrimental effect on the viability of the carrier's total operations. The establishment of the 100-200 mile limit within the United States flows not from an arbitrary rule or from some discriminatory laws but from simple economics relating to the transportation undertaking.

The LTL operators, it was submitted, in addition to being beset by the same geographical constraints as the T/L have a further difficulty namely that of the nature of the operations requiring a terminal network. If it is accepted that the major market area in Ontario is that within the south and west portion between Sarnia and Oshawa its proximity to the heavily populated States of New York and Michigan is apparent (see Schedule E). It is possible therefore that a United States based carrier supplying an LTL service could serve this area without terminal installations in Ontario having the benefit of terminal facilities in either Detroit or Buffalo or both. The same carrier may also have access to market areas in the United States beyond the geographical areas in which the Canadian carriers now operate, hence can offer transportation services to this larger market area not available to carriers here. In order to move beyond the present geographical area served in the United States the Canadian carrier would require a terminal network in the United States of America to be competitive on both service and rates. It was also brought to the Board's attention that the weight and size vehicle restrictions vary from State to State and generally speaking these differ sufficiently from the Canadian standards to require the Canadian carriers to preselect equipment to satisfy the shippers' demands as well as meeting the various jurisdictional requirements. These variations are evidently of concern to the United States carriers as well and efforts are being made by the United States Federal authorities to achieve some degree of uniformity. The Canadian carrier has the additional complication in this regard since Canadian regulations are in the metric system whereas the United States of America uses feet and pounds. The equipment measured in metric does not synchronize with the United States of America standards.

The foregoing distinctions were made with respect to the present level of operations but the submissions make it clear that within the context of the direction to the Board they cannot be viewed in isolation. Each carrier now involved in north/south moves continued to offer intra Canadian service with its attendant infrastructure, be they T/L or LTL operations. The submissions for the most part show that of the total operations, both intra and extra-provincial, the extra-provincial portion accounts for what most see as a significant percentage of total revenue. Any erosion of this revenue it was submitted, would operate to the detriment of the total operation with particular reference to the intra provincial operations and in the services provided to the public in this province.

Given the breadth of United States coverage offered by the major United States based carriers and the financial resources available to them the erosion of revenue is seen as flowing from, not only a replacement of Canadian carriers by United States carriers, but from group discounts now being offered in the United States. This practice flowing from the enactment of the Motor Carrier Act 1980, and what is sometimes termed "our wheels to your wheels" allows for discounts up to 30%. This provision is where the shipper delivers to or picks up from the carrier's terminals. Given a grouping of shipments at one time from one shipper to various consignees the broader shipper base in the United States backed by greater resources provides a flexibility to the United States carrier that is not available to the Canadian carrier. This would impact on those shipments ex

United States that are Canadian bound. It was acknowledged that the larger Canadian carrier had the resources for survival but taking the industry overall into consideration the potential for a major negative impact was highlighted. It was not the position of those making the submissions that they be afforded any special protection but rather that recognition be given to the fact that social, economic, climatic and geographic characteristics distinguishes one jurisdiction from the other making it other than a comparison of equals.

Options tendered as being available to the Canadian carriers should they be required to meet the negative impact of a policy of deregulation similar to that of the United States were (1) establish a United States based operation either to replace the Canadian operation or in addition to it (2) get out of the international extra-provincial operations and concentrate only on Canadian operations and (3) cease the operation completely either by simply "shutting down" or finding a United States purchaser interested in expanding its Canadian base of operations. Given that where resources are available to establish a United States based operation under Option (1) the positive aspects are that the advantages as now seen as available to the United States based carrier work to the advantage of the Canadian owned United States based operations. To follow this option it is necessary to establish United States terminal facilities, employ citizens of the United States and use United States equipment. Indeed one Ontario based carrier has exercised its option in this regard but sees the move as limited as to scope of United States coverage it can realistically provide in both the short and long term.

The negative aspects relate to the loss of capital investment, the job loss here and the tax, both individual and corporate, consequences in the overall picture. This Canadian based carrier holds a 48 State authority granted by the Interstate Commerce Commission but it would appear that such national United States coverage is beyond its present potential. Yet another Canadian based general commodity carrier holds a 9 state authority from the Interstate Commerce Commission and currently offers single line service to only four United States cities in these States and it does not expect at any point to be able to offer coverage beyond this competitively with the major United States carriers it sees as competition - See Schedule F. The results from an employment and tax point of view are the same as for the first mentioned Canadian based carrier but as the first mentioned is a truckload carrier the nature and size of its investment differs from the general commodity carrier who must acquire a terminal network with its attendant support staff and its overall greater financial investment.

The historical overview indicates that the Canadian, and in particular the Ontario carrier, moved to fill a vacuum in international service; a vacuum in which the United States carrier showed little or no interest. The Canadian carrier has not only filled the void but has come to rely on international traffic as a significant part of its operation hence in moving under Option (2) to remove itself from the international scene the immediate impact would be the loss of this revenue. To offset this loss it is anticipated that increases in the domestic rates would follow if the carrier was to remain operationally viable. The consequences are apparent in that the higher domestic rates would reflect in charges to the shipper and ultimately to the consumer. This change would apply only if the economy was bouyant enough to support the change but given our present economic climate this is a doubtful assumption. The net result would be that too many truck services would be chasing too few goods leading to the dropping out of carriers lacking the financial depth and management expertise to survive. In the longer run some benefits may result but in the short run the demise of even some carriers brings with it loss of employment, at a time when other carriers may, it is submitted, not be in a position to absorb the unemployed.

The "shutting up shop" prong of Option (3) brings with it the job loss and the service loss to the public of this province. However those who opt for the second prong and move to sell to a willing United States buyer brings into focus what appears to be a negative effect over time. The acquisition by United States interests has usually involved Ontario based carriers who were supplying an intra Ontario service in addition to the international service under their authority. On the surface it would appear that the change is one of ownership only but it was brought to the Board's attention that this is not necessarily the case. Cases cited involved McKinley Transport Limited and Canadian Freightways Eastern Ltd. both of whom were significant intra Ontario carriers operating under Class A and C and

Class A licences respectively. It now appears that with respect to McKinley control has shifted to the United States with maintenance facilities, dispatching, computers, etc. located at Sterling Heights, Michigan. The only contact for a driver from Ontario is by phone to the said United States location. Hanson Transport Ltd. purchased by Consolidated Freightways Inc. was a significant Class A carrier in this province but today this service is minimal through Canadian Freightways Eastern Ltd. the successor to Hanson Transport Ltd. having become, in the main, a Canadian link to its parent Consolidated Freightways Inc. concentrating on international freight. The net result of these changes has been the reduction in employment through the loss of the maintenance capabilities and related infrastructure necessary for the operation of terminals. The acquistion route appears therefore to have the potential for changes that are not necessarily apparent at time of purchase.

Options (1) and (3) have in common the fact that a United States based operation requires the utilization of United States equipment, the use (of necessity if the benefits are to flow) of United States citizens both as drivers and other personnel necessary to maintain and support the operation. It is difficult to measure this in economic terms, a fact that was clear from the submissions, given that the expenditures or loss thereof are subject to a multiplier effect that can be positive or negative. One submission (page 5 Schedule G) suggests that in terms of the Ontario economy this would mean "as many as 5,000 jobs, one billion dollars in annual purchases and 350 million dollars in annual government revenues could be at stake".

The same submission acknowledges the lack of an accurate data base on which to reach any precise results and in this the Board concurs. The information advanced suggests that economic losses will result, the degree of which cannot be accurately measured at this time.

In terms of the post Motor Carrier Act 1980 activity by United States carriers no submissions were made with respect to any intention to conduct an intra provincial operation. The interest reflected in the submissions related only to international movements as an adjunct to the present United States services. One United States carrier who now operates into and out of the Province of Quebec only, stated that the international operation accounted for only 2% of the revenue from the overall operation. This may be an indication of where its priorities would lie in relation to the total United States operation. The concern was expressed that if the interest continues only in international traffic and assuming the granting of the appropriate operating authorities the choice shown as Option (2) i.e. to concentrate only on domestic traffic may well prove to be not an option but a necessity.

Submissions were received advocating the adoption here of a policy similar to that in the United States holding that the free supply of transportation services would release competitive forces resulting in better rates and services. The prime advocate of this policy was the Canadian Manufacturing Association (CMA) who made both written (see Schedule H) and oral submissions. The CMA chose to cite the introduction into the Ontario market of UPS Canada Ltd. as an example of its position holding that UPS was offering services and rates to the residents of Ontario that had not been available before its arrival. The Board only notes that UPS offers an intra Ontario service across the province which forms the basis of its operation with its international traffic accounting for approximately 8% of its total revenue. This latter figure was cited by the President of UPS Canada Ltd. during his submission, a submission that addressed the benefits accruing to this province since its entry into this market. Today it employs approximately 800 people, has invested in property and equipment here and only recently has acquired property for a new facility on the border of Metropolitan Toronto. The nature and scope of this operation clearly distinguishes it from the strictly international class of carrier who was the subject matter of other submissions. The question of investment in this province was also addressed in the submission of Canadian Industrial Traffic League which stated:

> "Ontario carriers who have a large investment in infrastructure, equipment, personnel, etc., would obviously be operating at a cost disadvantage if American carriers were permitted to operate without making a comparable investment for people, terminals, equipment, etc.
>
> If American carriers were to operate from a U.S. 'Home Base' without the Ontario infrastructure, there would obviously be a reduced investment in items such as tractors, trailers, construction of terminals and sundry equipment and systems required to operate a trucking firm. It should be noted that American equipment and fuel can be purchased at a lower cost than comparable Canadian purchases."

The question of control shifting to the United States has already been addressed in terms of the Ontario trucking industry. On the basis of an individual's submission control may also be exercised through being a part of a multinational organization with United States headquarters where the decision as to carrier selection may shift from the Ontario subsidiary company to the United States parent where rates offered afford the grouping of shipments regardless of destination.

The Board can report that throughout the submissions reference was made to the costs of fuel, equipment etc. between Ontario and the United States, but apart from a detailed breakdown, supplied by St. Johnsbury Trucking Inc., of trailers purchased in the Province of Quebec and those purchased in the United States which showed them to be about the same price, no other data was supplied that would enable the Board to make any intelligent comment. The Board did receive submissions with respect to delays of up to two days incurred in clearing Customs on the Canadian side. This compared unfavourably with the United States Customs clearance experience where the carrier at the customs point selects the customs broker and proceeds on its way. The procedure applicable to northbound shipments is that the consignee selects the customs broker who must have a power of attorney from the consignee. The selection of the broker decides the point of Canadian customs clearance which may not be at the border crossing point but at one of the inland sufferance warehouses. This arrangement can result in clearance at more than one point requiring the carrier to make more than one stop making it necessary to unload and reload thus incurring additional costs. These additional costs were estimated by one carrier to be $500,000.00 a year, making international moves more expensive to handle than domestic traffic. In one instance a carrier has had itself declared a customs broker and opened its own sufferance warehouse a process that relieved the frustration of the delay incurred but still included an overall additional cost that added to the total cost of the international moves.

It was also brought to the Board's attention that notwithstanding Ontario's vehicle licence reciprocity with approximately 30 States in the United States of America the lack of participation in the broader based United States reciprocal state to state agreements increased the costs of at least one carrier who does conduct an intra United States operation. In order to fully participate in the United States agreements vehicle licences have to be purchased in one of the participating states at whatever additional costs are involved. Specific reference was made to the "International Reciprocity Plan" agreements but as there are certain jurisdictional difficulties with the International Reciprocity Plan the Board was advised that the Ministry of Transportation and Communications is currently working on the problem through what was identified as the "Multi-State Reciprocal Program" which may prove of value.

Those who advocated the adoption of a policy similar to that in the United States claimed that competition for services would produce lower transportation costs and that would benefit the manufacturers and thus make them more competitive in the global market place. Those concerned with the potential negative impact on the trucking industry expressed such concern with stress on the loss of capital investment, employment, reduction in the tax flow and the negative multiplier effect on the economy at large including the domestic Canadian manufacturing base. Information as to the potential effect on the consumer was sparse with it being left to the Board to conclude that the consumer impact would vary given the sensitivity of the product line to transportation costs.

In summary given the adoption of a policy similar to that in the United States of America and the uniform application of the immigration laws of each jurisdiction the Canadian carrier who for the reasons given has an historical base in international traffic has the most to lose. This is predicated upon his inability to achieve a balanced operation through equipment utilization without establishing a United States based operation. His United States based counterpart given the population density and the geography of southwest Ontario is in a position to operate with a better utilization factor being able to return empty if necessary to his home jurisdiction with its greater potential for freight moving in his direction. Again on the historical basis the Ontario carrier has come to rely to a large extent on the revenue derived from international traffic and any erosion of this revenue would have a negative effect on its overall operation. Within the present areas of operation the Ontario carrier is and can remain competitive but few have the resources to establish a United States base of operation . Those with some resources submit that if you put all the Ontario carriers together it would take at least 15 years to establish the necessary infrastructure to be competitive with the major United States carriers they see as competition. The major thrust of the latter group appears to be international traffic only and the Ontario market is vulnerable when this class of traffic forms a very small part of the total United States based carrier operations, yet is subject to the same pricing practices. Practices which in themselves can be met competitively in the United States but not necessarily here with the limited markets available to and served by the Ontario carrier. The result over time would, it is claimed, see the demise of Ontario based carrier's international traffic with control and investment located in the United States. The pressures would, as a result, increase in the domestic market for the business available. It is of interest to note that submissions received from the American Trucking Association and St. Johnsbury Trucking Co. Inc. highlighted in support of the adoption of the policy the numbers of applications to the Interstate Commerce Commission from Canadian carriers and the numbers issued. (See Schedules J and K). The Boards records show that for the year 1982 a total of 231 applications were received for international movements of which 132 were from United States carriers and of these all were granted most without Canadian opposition (see Schedule L). It appears therefore that the concern expressed is not for the protection from competition but for recognition of the fact that differences do exist and such differences are not of the making of the trucking fraternity in either jurisdiction but do affect one much more than the other. To apply equal opportunity for markets to those who are not equal leads it is argued to further inequality or as one submission concluded "Hopefully the minnows will not be forced to swim with sharks".

In accordance with your direction the Board tenders this report on the basis of the submissions made and makes no recommendations, nor does it draw any conclusions therefrom. However if the Board may be permitted to make a suggestion it would be that some forum be established to collect data that is current and relevant to international traffic. The Board found that the data available was too narrowly based, outdated or incomplete to the point that no specific conclusions could be drawn therefrom. For this reason where figures are quoted they are as presented to the Board and came from individual submissions.

The Board finds that no finite answers emerged from the submissions as the responses tended to be subjective. To the United States based carrier the application of a policy akin to that in the United States appeared a logical extension of its present operation. The Canadian based carrier on the other hand saw limitations imposed by geography and population density that precluded it from competing on an equal basis with its United States counterpart. These limitations were beyond its control hence its concern was that they be recognized before any major policy decisions with regard to the regulations of international traffic are made. The response from the manufacturing community as advanced through its association was a philosophical approach of freedom from regulation releasing competitive forces that would work to its advantage. The association representing the transportation and distribution managers expressed a concern of a loss of service to smaller communities and an increase cost in domestic tariffs and recommended a more cautious approach if changes are to be made.

Labour through representatives of the Teamsters Union, expressed concern with respect to the potential job loss should there be a shift in the present balance of trade in trucking, a shift that would see utilization of United States citizens as employees at the expense of those now employed in the industry in Ontario.

DATED AT TORONTO THIS   DAY OF JULY, 1983.

G. C. Marrs
CHAIRMAN

R. D. Sloan
VICE-CHAIRMAN

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Ontario

Transportation and
Communications

news release

FOR IMMEDIATE RELEASE
19/04/83

Snow directs OHTB to investigate effects of U.S. trucking on Ont. industry

TORONTO -- Ontario Minister of Transportation and Communications James Snow today directed the Ontario Highway Transport Board to measure the effect an influx of U.S. carriers could have on the provincial trucking industry and business community.

In a letter to OHTB chairman George Marrs, the minister asked that the OHTB pay specific attention to the likelihood or severity of any potential major shift in the balance of trade in trucking services.

"I expect the exercise to be fact-finding in nature," he said, "addressing the broad consequences of any shift in trucking between both jurisdictions. I also requested the investigation have a high priority, that it get back to me by July 31 of this year, even though I realize this may affect the scheduling of some current matters before the board."

Snow noted that the terms of the investigation were drafted in the context of the five-point understanding (copy attached) reached between the Canadian and U.S. governments last November.

"Point two," he noted, "specifically addresses the possibility for a potential shift in the balance of trucking services. And point five allows for the results of any investigation to be submitted to a consultive mechanism... something we fully intend to do."

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From: Public and Safety
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United States Understanding

1. Both the United States of America and Canada are committed to improving the flow of commerce across their borders and believe that the availability of competitive, market-oriented motor carrier services can contribute to the efficiency of such commerce. In this regard, it is the goal of both Governments that their respective motor carrier regulatory authorities maintain a policy of non-discrimination.

2. Both sides subscribe to providing full, fair and equitable opportunities among truckers from both countries to compete for the carriage of international traffic. They recognize, however, that there are differences in the policies and economies of the two countries which may affect the competitive opportunities available to motor carriers. If these differences result in a major shift in the balance of trade in trucking services to the injury or detriment of an important segment of the industry, the parties will use the consultative mechanism provided in section (5).

3. Both Governments welcome mutually beneficial investment in the motor carrier sector and confirm that their investment policies will favour economically efficient competition. Both Governments also confirm the desirability of prompt processing of motor carrier applications before the pertinent bodies and pledge their efforts to this end.

4. The two sides agree on the objective of expediting trade by means of the most efficient and economical transportation possible, including single-line services. In this respect, both sides will endeavour to give significant weight to the needs and desires of shippers and consumers.

5. The two sides agree to establish a consultative mechanism with a view to resolving problems which affect either or both countries in the trucking sector. This mechanism will include the ICC, the Canadian Conference of Motor Transport Administrators (CCMTA) at the Commissioner or equivalent level, the American Association of Motor Vehicle Administrators (AAMVA), and the federal departments concerned with transportation, foreign affairs, trade and other interested agencies. Subjects for discussion may extend to the full range of truck transportation problems, including taxes, registration, and standards. Both sides shall have the right to examine the operation of this understanding and request discussions pertaining to it. Either side remains free to take appropriate measures if, after consultations through this mechanism, the problems under discussion have not been solved to their mutual satisfaction.

IN THE MATTER OF "THE PUBLIC COMMERCIAL VEHICLES ACT" R.S.O. 1980, Chapter 407,

AND IN THE MATTER OF "THE ONTARIO HIGHWAY TRANSPORT BOARD ACT" R.S.O. 1980, Chapter 338,

NOTICE

TAKE NOTICE that pursuant to the provision of Section 39 of the Public Commercial Vehicles Act, R.S.O. 1980, Chapter 407, the Honourable the Minister of Transportation and Communications, recognizing that differences in policies and economies between the United States of America and Canada do exist, has directed the Ontario Highway Transport Board to examine and investigate such matters as may be necessary to determine:

(1) if a major shift in the balance of trade in trucking services is likely, and

(2) what effect such a shift would have on the trucking industry and the service to Ontario shippers, receivers and consumers.

AND FURTHER TAKE NOTICE that the Board has been requested to seek input from the public, the business community and the trucking industry on as wide a range as possible and it hereby solicits input from any person who wishes to make submissions, oral or written for the Board's consideration. Such submissions shall be considered by the Board at public hearings at the times and locations scheduled as follows:

May 30, 1983	City Hall, Whitton Hall, 111 Sussex Dr.	OTTAWA
June 1, 1983	City Hall, Council Chambers, 4310 Queen St.	NIAGARA FALLS
June 6, 1983	Court House, 245 Windsor Ave.	WINDSOR
June 7, 1983	City Hall, Council Chambers, 300 Dufferin Ave.	LONDON
June 10, 1983	Conference Room, City Hall, 220 Algonquin Blvd. E.	TIMMINS
June 14, 1983	Red Oak Inn, 555 West Arthur St.	THUNDER BAY
June 16, 1983	Council Chambers, Regional Municipality of Sudbury, Civic Square, 200 Brady St.	SUDBURY
June 20, 1983	Board Offices, 151 Bloor St. W.	TORONTO

AND FURTHER TAKE NOTICE THAT WRITTEN SUBMISSIONS SHALL BE IN TRIPLICATE AND FILED WITH THE SECRETARY OF THE BOARD NO LATER THAN THURSDAY, 26 MAY, 1983.

AND FURTHER TAKE NOTICE that on Friday, 20 May, 1983 the Board shall meet to hear submissions relative to the procedures to be followed at the aforementioned hearings.

Unless otherwise noted, Board Hearings will commence at 10 a.m. Additional Hearings may be arranged at other locations, if warranted.

For further information contact the Secretary, Ontario Highway Transport Board, 151 Bloor Street West, 10th Floor, Toronto, Ontario, M5S 2T5, Telephone: (416) 965-1845.

C. I. Davila
Secretary

Dailies

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45 Fourth Street
CHATHAM, Ontario
N7M 2G4

News Editor
Cornwall Standard Freeholder
44 Pitt Street
CORNWALL, Ontario
K6J 3F3

News Editor
Daily Bulletin
Box 339
FORT FRANCES, Ontario
P9A 3M7

News Editor
Daily Miner and News
33 Main Street South
Box 1620
KENORA, Ontario
P9N 3X7

News Editor
Kingston Whig-Standard
306 King Street
KINGSTON, Ontario
K7L 4Z7

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SUDBURY, Ontario
P3C 4Y1

News Editor
Times-News/Chronicle Journal
75 S. Cumberland Street
THUNDER BAY, Ontario
P7B 1A3

News Editor
Daily Press
125 Cedar Street South
TIMMINS, Ontario
P4N 2G9

News Editor
Toronto Daily Star
One Yonge Street
TORONTO, Ontario
M5E 1E6

News Editor
The Globe and Mail
444 Front Street West
TORONTO, Ontario
M5V 2S9

News Editor
The Toronto Sun
333 King Street East
TORONTO, Ontario
M5A 3X5

News Editor
Mr. Derek Nelson
Editorial Department
Thomson Newspapers Ltd.
65 Queen Street West
TORONTO, Ontario
M5H 2M8

News Editor
The Evening Tribune
228 East Main Street
WELLAND, Ontario
L3B 3W8

News Editor
The Windsor
167 Ferry Street
WINDSOR, Ontario
N9A 4M5

LIST OF PARTIES MAKING SUBMISSIONS TO THE ONTARIO HIGHWAY TRANSPORT BOARD HEARINGS RE THE BALANCE OF TRADE IN TRUCKING SERVICES

MAY 30/83 - JULY 13/83

(All submissions are in writing unless otherwise noted)

Al's Moving & Cartage Ltd.

American Trucking Associations, Inc. (Washington, D.C.)

Andrews Trucking Limited (Niagara-on-the Lake)

Blue Apple Consulting (Toronto) - Bernard Jones

Bondy Cartage Limited (Windsor)

The Bulk Carriers Company (Mississauga)

The Canadian Industrial Traffic League

Canadian Machinery Movers Limited (Windsor)

The Canadian Manufacturers Association (Toronto)

Canadian Pacific Express & Transport Limited (Toronto)

Burt Clifford Transport Inc., (Kingsville)

Constable Transport Limited (Thorold)

Direct Transportation System Limited

Dominion-Consolidated Truck Lines Limited

Dunlop Transport Limited (Petrolia)

Erb Transport Limited (New Hamburg)

Frederick Transport Limited (Chatham)

Fruitbelt Trucking Inc. (St. Catharines)

A.J. (ARCHIE) Goodale Limited (Hamilton)

Terry Goodwin - Transportation Consultant (Thornhill)

Gorski Bulk Transport Inc. (Windsor)

Hendrie and Company Limited (Toronto)

Kingsway Transports Limited

H. Knill & Sons Limited (Paris)

Mr. Bob Lavigne of Hiram Walker - Oral submission at Windsor on June 3, 1983

Laidlaw Transport Limited (Hamilton)

Liquid Cargo Lines Limited (Mississauga)

Lindbergh's Hunting & Fishing Air Service Limited
(South Porcupine)

Mr. James Lloyd, McKinley driver - oral submission at
Windsor, June 6, 1983

Melburn Truck Lines (Mississauga)

McCourt Cartage Limited (Windsor)

Mr. W. McKeen - oral submission at Windsor, June 6, 1983

D. McMurran representing Chrysler truck drivers -
444 U.A.W. - oral submission at Windsor, June 6, 1983

The Niagara Frontier Tariff Bureau Inc., (Buffalo)
(Mr. R. Gawley)

The Ontario Trucking Association (Toronto)

Mr. Bert Othmer, McKinley driver - oral submission
at Windsor, June 6, 1983

J. R. Phillips Transport Limited (Maidstone)

Christopher Powell (Scarborough)

Proctor and Gamble (Toronto) - oral submission at Toronto, June 30, 1983

Quest Chemicals Ltd.,

Slack Transport Limited (Caledonia)

Mr. Stockwell - oral submission at Windsor on June 6/83

St. Johnsbury Trucking Company, Inc. (St. Johnsbury Vermont, U.S.A.)

Taggart Service Limited (Perth)

Talbotville Transport Limited (Southwold)

Tank Truck Transport Limited (Rexdale)

Teamsters Union Local 938 (Mississauga)

Teamsters Union Local 880 (Windsor) - oral submission by Wilf Mays on June 6, 1983

Thibodeau - Finch Express Limited (Windsor)

J.E. Thompson Transport Ltd., (Ingleside) - oral submission May 30, 1983

Thunder Bay Chamber of Commerce

W. Thur and Sons Limited (Elmira)

TNT Canada Inc., (Mississauga)

TRAFFIX - oral submission May 30, 1983

Transport Route Canada Inc.,

Trimac Transportation Limited (Mississauga)

United Parcel Service Canada Ltd. (Mississauga)

Van de Hogen Cartage Limited (Windsor)

Mr. Vickerd - oral submissions at Windsor on June 3, 1983

Wheeled Vehicle Transportation Service Industry

Yellow Freight System, Inc., (Overland Park, Kansas, U.S.A.)

Zavitz Brothers Limited (Wainfleet)

SCHEDULE E

CANADIAN POPULATION

(1981 CENSUS FIGURES)

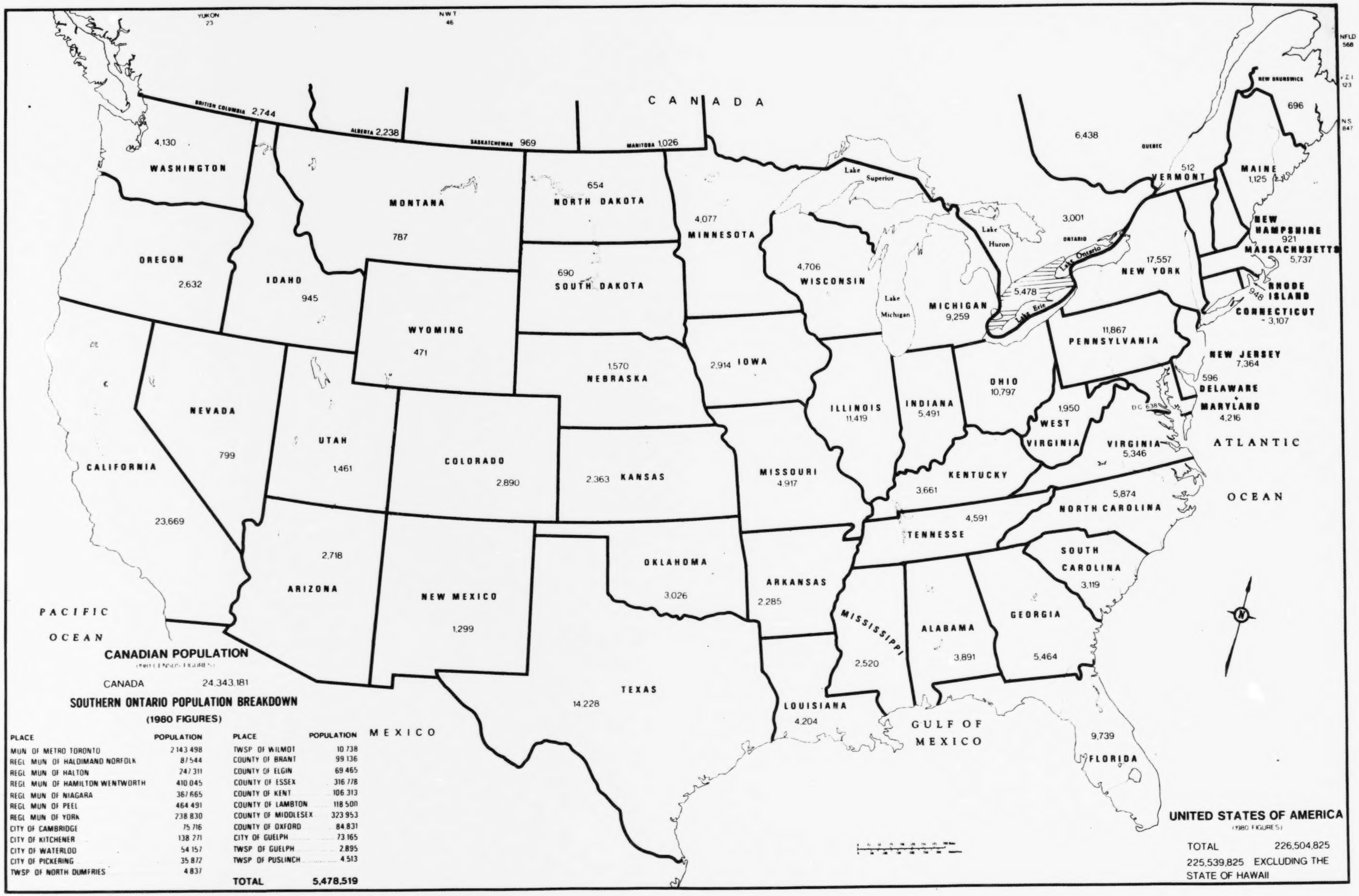
CANADA 24,343,181

UNITED STATES OF AMERICA

(1980 FIGURES)

TOTAL 226,504,825

225,539,825 EXCLUDING THE STATE OF HAWAII


YUKON
23
NWT
46
NFLD
568
P.E.I.
123
N.S.
847
NEW BRUNSWICK
696
C A N A D A
BRITISH COLUMBIA 2,744
ALBERTA 2,238
SASKATCHEWAN 969
MANITOBA 1,026
QUEBEC
6,438
ONTARIO
3,001
5,478
Lake Superior
Lake Huron
Lake Michigan
Lake Ontario
Lake Erie
WASHINGTON
4,130
OREGON
2,632
CALIFORNIA
23,669
IDAHO
945
NEVADA
799
MONTANA
787
WYOMING
471
UTAH
1,461
ARIZONA
2,718
COLORADO
2,890
NEW MEXICO
1,299
NORTH DAKOTA
654
SOUTH DAKOTA
690
NEBRASKA
1,570
KANSAS
2,363
OKLAHOMA
3,026
TEXAS
14,228
MINNESOTA
4,077
IOWA
2,914
MISSOURI
4,917
ARKANSAS
2,285
LOUISIANA
4,204
WISCONSIN
4,706
ILLINOIS
11,419
MICHIGAN
9,259
INDIANA
5,491
OHIO
10,797
KENTUCKY
3,661
TENNESSEE
4,591
MISSISSIPPI
2,520
ALABAMA
3,891
GEORGIA
5,464
FLORIDA
9,739
SOUTH CAROLINA
3,119
NORTH CAROLINA
5,874
VIRGINIA
5,346
WEST VIRGINIA
1,950
DC 638
MARYLAND
4,216
DELAWARE
596
NEW JERSEY
7,364
PENNSYLVANIA
11,867
NEW YORK
17,557
VERMONT
512
NEW HAMPSHIRE
921
MAINE
1,125
MASSACHUSETTS
5,737
RHODE ISLAND
948
CONNECTICUT
3,107
PACIFIC OCEAN
ATLANTIC OCEAN
GULF OF MEXICO
M E X I C O
N

CANADIAN POPULATION

(1981 CENSUS FIGURES)

CANADA 24.343.181

SOUTHERN ONTARIO POPULATION BREAKDOWN

(1980 FIGURES)

PLACE	POPULATION	PLACE	POPULATION
MUN OF METRO TORONTO	2 143 498	TWSP OF WILMOT	10 738
REGL MUN OF HALDIMAND NORFOLK	87 544	COUNTY OF BRANT	99 136
REGL MUN OF HALTON	247 311	COUNTY OF ELGIN	69 465
REGL MUN OF HAMILTON WENTWORTH	410 045	COUNTY OF ESSEX	316 778
REGL MUN OF NIAGARA	367 665	COUNTY OF KENT	106 313
REGL MUN OF PEEL	464 491	COUNTY OF LAMBTON	118 500
REGL MUN OF YORK	238 830	COUNTY OF MIDDLESEX	323 953
CITY OF CAMBRIDGE	75 716	COUNTY OF OXFORD	84 831
CITY OF KITCHENER	138 271	CITY OF GUELPH	73 165
CITY OF WATERLOO	54 157	TWSP OF GUELPH	2,895
CITY OF PICKERING	35 872	TWSP OF PUSLINCH	4 513
TWSP OF NORTH DUMFRIES	4 837		
		TOTAL	**5,478,519**

UNITED STATES OF AMERICA

(1980 FIGURES)

TOTAL 226,504,825

225,539,825 EXCLUDING THE STATE OF HAWAII

SCHEDULE F

SCHEDULE OF CARRIERS
SERVICING BOTH BUFFALO AND DETROIT
EACH OF WHICH HAD 1982
REVENUES IN EXCESS OF $200,000,000.00

	ABF FREIGHT CARRIERS CORPORATION	CAROLINA FRIEGHT CARRIERS CORPORATION	CONSOLIDATED FREIGHTWAYS	HALL'S MOTOR TRANSIT
TOTAL OPERATING REVENUE $	302,901	268,374	1,036,826	215,335
OPERATING RATIO	101.4	95.5	94.5	104.1
NET INCOME OR LOSS $	d 11,715	6,024	37,666	d 11,934
NUMBER OF TERMINALS	163	111	404	74
NUMBER OF TRACTORS AND TRUCKS	2,380	1,634	-----	2,210
NUMBER OF TRAILERS	6,026	3,381	-----	4,341
NUMBER OF STATES SERVED	48	25	48	23

d 000 to all $ columns. "d" - deficit or other reverse item

f mation in side headings A, B and C was taken from Carrier Report, nual, 1982 issued in April, 1983.

f mation in side headings D, E, F and G was taken from the Spring 1983 s of National Highway and Airway Carriers Directory.

SCHEDULE OF CARRIERS
SERVICING BOTH BUFFALO AND DETROIT
EACH OF WHICH HAD 1982
REVENUES IN EXCESS OF $200,000,000.00

	McLEAN TRUCKING COMPANY	PACIFIC INTERMOUNTAIN EXPRESS CO.	PRESTON TRUCKING COMPANY, INC.	ROADWAY EXPRESS, INC.
TOTAL OPERATING REVENUE $	491,892	394,474	218,048	1,147,45
OPERATING RATIO	104.5	101.5	97.2	92.7
NET INCOME OR LOSS $	d 22,814	d 3,171	5,145	74,23
NUMBER OF TERMINALS	263	209	77	503
NUMBER OF TRACTORS AND TRUCKS	4,650	3,240	1,425	8,500
NUMBER OF TRAILERS	8,344	5,997	3,300	13,700
NUMBER OF STATES SERVED	47	46	14	45

000 to all $ columns. "d" - deficit or other reverse item

rmation in side headings A, B and C was taken from Carrier Report, al, 1982 issued in April, 1983.

rmation in side headings D, E, F and G was taken from the Spring 1983 e of National Highway and Airway Carriers Directory.

SCHEDULE OF CARRIERS
SERVICING BOTH BUFFALO AND DETROIT
EACH OF WHICH HAD 1982
REVENUES IN EXCESS OF $200,000,000.00

	RYDER TRUCK LINES, INC.	SMITH'S TRANSFER CORPORATION	TRANSCON LINES	YELLOW FREIGHT SYSTEM, IN
TOTAL OPERATING REVENUE $	622,235	270,231	249,409	903,562
OPERATING RATIO	98.4	101.6	102.9	98.2
NET INCOME OR LOSS $	3,433	d 3,000	d 7,163	10,358
NUMBER OF TERMINALS	210	137	102	500
NUMBER OF TRACTORS AND TRUCKS	3,113	2,974	2,504	2,770
NUMBER OF TRAILERS	4,927	4,599	3,479	10,054
NUMBER OF STATES SERVED	48	35	36	47

000 to all $ columns. "d" - deficit or other reverse item

mation in side headings A, B and C was taken from Carrier Report, ual, 1982 issued in April, 1983.

mation in side headings D, E, F and G was taken from the Spring 1983 ue of National Highway and Airway Carriers Directory.

SCHEDULE G

THE ONTARIO HIGHWAY TRANSPORT BOARD

IN THE MATTER OF The Public Commercial Vehicles Act, R.S.O. 1980, Chapter 407,

AND IN THE MATTER OF The Ontario Highway Transport Board Act, R.S.O. 1980, Chapter 338,

AND IN THE MATTER OF The Minister of Transportation and Communication's direction pursuant to Section 39 of the Public Commercial Vehicles Act, R.S.O. 1980, Chapter 407, to the Ontario Highway Transport Board to investigate and examine certain matters relating to transborder trucking between Canada and the United States.

STATEMENT OF BERNARD JONES
PRINCIPAL, BLUE APPLE CONSULTING
TORONTO, ONTARIO

My name is Bernard Jones. I am Principal of Blue Apple Consulting which has offices in Unionville and Toronto.

Blue Apple Consulting provides consulting services in economics, public policy, finance and management to clients in the public and private sectors.

I am an economist by training, holding a Commerce Degree with Honours Economics. I am also a Woodrow Wilson Fellow and recipient of a silver medal for achieving the highest standing in the Commerce program as well as various other awards and scholarships. I have completed post graduate studies in economics.

I have over twenty years of experience in business and government. Prior to establishing my consulting business almost two years ago, I held the position of Assistant Deputy Minister, Office of the Budget and Intergovernmental Finance, in the Ontario Ministry of Treasury and Economics. I was responsible for the coordination and planning of the Province's budget and other matters. Before this, I worked in a number of positions in the Ministry on fiscal, taxation and economic issues.

Before joining government, I worked for three companies in the private sector and held progressively responsible positions in accounting, auditing, investments and economics.

INTRODUCTION

In our preliminary statement of June 27, we discussed the status of information on the trucking industry and made some preliminary observations about the economic contribution of the industry and its trends and prospects. Today we wish to present further details relevant to the transborder question, which are now combined with previous comments and presented in the following order:

1. EXECUTIVE SUMMARY
2. SKETCHING THE BIG PICTURE ON TRANSPORTATION
3. THE ECONOMIC CONTRIBUTION OF TRUCKING
4. ECONOMIC TRENDS AND PROSPECTS
5. THE FINANCIAL PERFORMANCE OF FOR-HIRE TRUCKING
6. INTERNATIONAL FOR-HIRE TRAFFIC
7. IMPLICATIONS OF OPEN BORDER POLICIES
8. STRATEGIC INFORMATION IN THE TRUCKING INDUSTRY

1. EXECUTIVE SUMMARY

Transportation is one of the larger sectors in the Canadian economy and gross revenues exceed $28 billion. Trucking is the largest component in the transportation sector, and the dominant mover of freight. Trucking has been one of the fastest growing modes of transportation in recent decades.

For-hire and private trucking combined is at least a $14 billion industry in Canada and $5 billion in Ontario. The industry deploys over 360,000 pieces of equipment across Canada and over 130,000 in Ontario. It employs over 211,000 persons in Canada and 81,000 in Ontario. The industry and its employees pay billions of dollars in taxes annually to federal, provincial and local governments.

Ontario generates 36 per cent of the for-hire revenues, employs 35 per cent of the workers and deploys 39 per cent of the operating units. The province's share of the trucking industry reflects the size and diversity of its economy and proximity to major U.S. markets. Ontario has a bigger share of the transborder traffic--more than one-half, and thus a big stake in the transborder issue.

Trucking is affected by structural changes in the economy and overall economic performance. Because of the recession, there is substantial excess capacity in the industry and profits have shrunk. Profitability for the industry has been on a downward trend since the mid-1970s, while debt-equity ratios have risen. Some individual carriers may be in reasonable financial shape, but the industry as a whole is financially stretched, especially the larger carriers.

U.S. carriers, although also suffering from the impact of the recession are, on average, in better financial shape. U.S. carriers are of larger average size and the bigger ones dwarf their Canadian and Ontario counterparts.

The longer-range outlook for the Ontario economy indicates modest growth for the goods-producing industries over the next decade. While the 1960s and early 1970s brought growth and expansion to the industry, the 1980s are likely to bring slower growth in markets.

The international trucking market is important to Canada, but even more important to Ontario's economy since Ontario-based international carriers generate a disproportionately large share of total international revenues. They correspondingly have by far the larger share of employees, equipment and other assets. LTL and TL traffic are the two most vital revenue generators.

If a change in Ontario transportation policy were to reduce the relative volume of international business handled by Ontario-based carriers (either through present U.S.-based carriers taking a bigger share of the market or through the relocation of Ontario-based international carriers to the United States) the provincial economy could lose substantial investment, jobs and government revenues. As many as 5,000 jobs, $1,billion in annual purchases and $350 Million in annual government revenues could be at stake.

Looking at the current balance of trade in trucking services, it appears that U.S. carriers may already have a net favourable balance: shipments of U.S. origin earn a larger share of the revenues, represent a larger share of the Canadian market than Canadian origin shipments do of the U.S. market, and more international trucking miles are travelled south of the border.

Protectionist trends in the international economy, including the United States in some sectors, and high unemployment, complicate the Board's deliberations on transborder trucking policy. The Ontario economy can ill-afford to lose more jobs and the Board should be convinced that Canadian carriers would receive fair and equal reciprocal treatment as one precondition to opening the border. Another necessary condition is strong evidence that potential economic benefits would offset the potential losses sketched in this report. A final condition is that Ontario and Canadian carriers should be financially able to make adjustments to their operations to remain competitive. This suggests that, in the event an open border policy is implemented, a transitional period of adjustment, or phasing-in may be required.

The information available on the trucking industry in Canada is fragmented and uncoordinated. Steps should be taken to improve and upgrade the flow of vital information needed for effective strategic planning and public policy formulation. Recommendations are contained in this report.

2. SKETCHING THE BIG PICTURE ON TRANSPORTATION

In the existing body of research on trucking, both in Canada and the United States, emphasis is on analysis of markets, finance, competition and regulation. This reflects the nature of the industry and the ongoing concern with regulatory matters. What is surprising is the lack of available research on the macro-economics of the industry i.e. its contribution to the economy and the industry's trends, developments and prospects relative to overall economic performance. A preoccupation with regulatory issues is undoubtedly a contributing factor, but it is also true that the lack of adequate data hinders macro analysis.

Nevertheless, we believe the existing facts and information, when brought together, can be used to place the Ontario trucking industry in perspective. The resulting picture is of the nature of a sketch for which many details are yet to be provided. Hopefully, it will contribute positively to the transborder debate.

Data not specifically sourced in this report is Statistics Canada data.

Transportation Industries are a Major Part of the Economy

The transportation service industries comprise a substantial component of the overall economy. We estimate transportation is at least a $28 billion business in Canada, which is the equivalent of 9.6 per cent of the total economy,(1) or 12 per cent of the private sector economy (see Table 1). In order of magnitude, it rivals the trades, finance, insurance and real estate. Included in this transportation measure is carriage of both passengers and freight by rail, truck, bus, airline, ship and pipeline.

The trucking industry is the dominant mover of freight and the biggest revenue generator in the total transportation sector. We estimate that for-hire and private trucking combined accounts for almost one-half of the total revenues (47.9%) earned in transportation. The

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1. GNP. The size of the industry can also be measured relative to Gross Domestic Product at factor cost. Unfortunately, a GDP trucking component is not published. Total transportation excluding private trucking is estimated at 6.5% of GDP and is probably over 8.0 percent including privates. Either way, the total transportation sector is a significant part of the economy.

Table 1

TRANSPORTATION'S SHARE IN THE ECONOMY

(as measured by revenue generation)

	1974 ($millions)	1980 ($millions)	Annual Growth %
Railways	2,569	5,334	13.0
Trucking (1)			
--for-hire	3,119	5,561	10.1
--private	–	7,862	n.a.
Urban transit	347	1,064	20.5
Buses	138	270	11.8
--school and charter	–	491	n.a.
Airlines	1,598	3,985	16.5
Water carriers	1,215	1,840	7.2
Pipelines	848	1,631	11.5
Totals	9,834	28,038	12.3*
--as a percent of GNP (excl. private trucking and "other" buses)	6.7	6.7	
--as a percent of GNP (includ. private trucking and "other" buses)	n.a.	9.6	

Data Source: Statistics Canada unpublished data and Blue Apple Consulting Estimates.

(1) For-hire trucking includes household goods movers.

* Excludes private trucking and school and charter buses.

trucking industry's share of total freight revenues is of course much higher than this. As late as the 1960s, rail dominated the transportation scene in Canada, having by far the major share of the market. Today, however, most other transportation modes have increased their market shares and brought progress, diversity and balance to Canada's transportation system.

Reasonably consistent data is available only from 1974 onwards. Table 1 shows that total transportation revenues (excluding private trucking and school and charter buses) grew at 12.3 per cent per annum over the 1974-80 period, led by airlines at 16.5 per cent and urban transit at 20.5 per cent. For-hire trucking grew more slowly, at 10.1 per cent per annum. To what extent this slower growth was due to competition from the various modes, including private trucking, from the influence of the more sluggish economic performance on trucking freight, or differential increases in tariffs we are not able to tell at present. However, a 1978 survey by the Ministry of Transportation and Communications did find evidence of increased market share by private truckers in the 1970s. This source indicates that private truck movements and tonnages, as a percentage of total for-hire and private traffic, rose from 42 and 37 per cent respectively in 1971 to 51 and 41 percent in 1978.(1)

---

1. Ontario Ministry of Transportation and Communications, "Ontario Commercial Truck Survey, 1978."

The MTC survey observed :

> "truck transport was the predominant shipping mode... it is believed that the perceived characteristics of truck transport (i.e., low cost, speedy delivery) have become the benchmark for all modal decisions."

The study found that rail was preferred where cost was the most significant consideration, air where speed was essential and trucking when a blend of the two was desirable.

Table 2 gives the percentage shares of the various transport modes.

Table 2

TRANSPORT MODES SHARE OF MARKET
(percent distribution)

	1970	1980
	%	%
Railways	26.1	27.1
Trucking--for-hire(incl.h/h goods)	31.7	28.2
Urban transit	3.5	5.4
Buses--excl. school and charter	1.4	1.4
Airlines	16.2	20.2
Water carriers	12.4	9.3
Pipelines	8.7	8.4
	100.0	100.0

Source: see Table 1.

Table 3

SNAPSHOT OF THE TRUCKING INDUSTRY IN CANADA AND ONTARIO

Canada	(1) For-Hire	(1) HGM	(2) Private	"Total"
Establishments (3)	4,145	396	8,928	13,469
Revenues ($millions)	5,688	360	7,862(5)	13,910
Expenses ($millions)	5,498	346	7,862(4)	13,706
Employees	90,782	8,934	111,330	211,046
Equipment (units)	135,002	6,240	223,204	364,446
Taxes paid ($millions) (6)	1,952	123	2,791	4,866
Total assets ($millions)	3,200		n.a.	3,200
Ontario				
Establishments (3)	1,075	133	2,678	3,886
Revenues ($millions)	2,071	153	2,575(5)	4,799
Expenses ($millions)	1,981	148	2,575(4)	4,704
Employees	31,896	3,970	45,640	81,506
Operating Units	52,999	2,639	74,754	130,392
Taxes paid ($millions) (6)	703	53	914	1,670
Total assets ($millions)	1,200		n.a.	1,200

Source: Statistics Canada published and unpublished data and Blue Apple Consulting estimates.

1. 1981 data for Classes 1,11 and 111.
2. Unpublished and partial data for 1980 and estimates of 1981 revenue and spending.
3. Reporting establishments only.
4. As there were only 1,628 operators reporting revenues and 7,593 reporting partial expenses,total private carrier expenses were estimated by taking the 1980 weighted average ratio of for-hire to private employees and operating units and multiplying the 1981 for-hire expenses by this ratio.
5. It is assumed that private operators 'break even'.
6. Taxes are an estimate of all taxes paid by carriers and their employees, based on public sector tax revenues as a share of national income.

3. THE ECONOMIC CONTRIBUTION OF TRUCKING

Estimates of the trucking industry indicate there are well over 13,000 reporting for-hire and private carriers in Canada and probably 4,000 or more in Ontario. Table 3 suggests that private carriers are in the majority. Ontario appears to have a modestly higher percentage of private carriers than Canada as a whole. Based on admittedly incomplete numbers, the Table indicates that trucking is at least a $14 billion industry in Canada and about $5 billion in Ontario. The industry operates over 360,000 units of equipment (trucks, tractors, trailers and other) across Canada, and over 130,000 units in Ontario. The industry also employs over 211,000 persons in Canada and over 81,000 in Ontario. While the above estimates are subject to considerable qualification, they are more likely understating than overstating the size of the industry.

The Ontario share of the total trucking industry--as indicated by these numbers--reflects the relative importance of the provincial economy to Canada in terms of population, investment, output, manufacturing and extra-provincial trade. The province generates 36 per cent of the for-hire revenue on 26 per cent of the establishments. On the other hand, Ontario employs 35 per cent of the for-hire workers and deploys 39 per cent of the operating units, indicating that Ontario carriers are on average of larger size. These percentages for employees and operating units are approximately the same when private trucking and household goods movers are included. For comparative purposes, Ontario's share of Gross Domestic Product is about 39 per cent and of population 36 per cent.

4. ECONOMIC TRENDS AND PROSPECTS

The North American and international economies have undergone enormous stress over the past two years and face serious obstacles to renewed vigorous and stable growth in the future. These obstacles include:

- stagnant international trade and growing protectionism;
- chronic structural unemployment--the chart below shows that labour force growth has steadily outstripped employment growth in the OCED group of nations;
- huge burdens of debt for many third-world nations;
- mega federal government deficits in Canada and the United States. The latter in particular is calling into question the economic recovery which now seems to be underway; and,
- structural and technological changes affecting the auto, steel, primary metals, transportation and other industries.

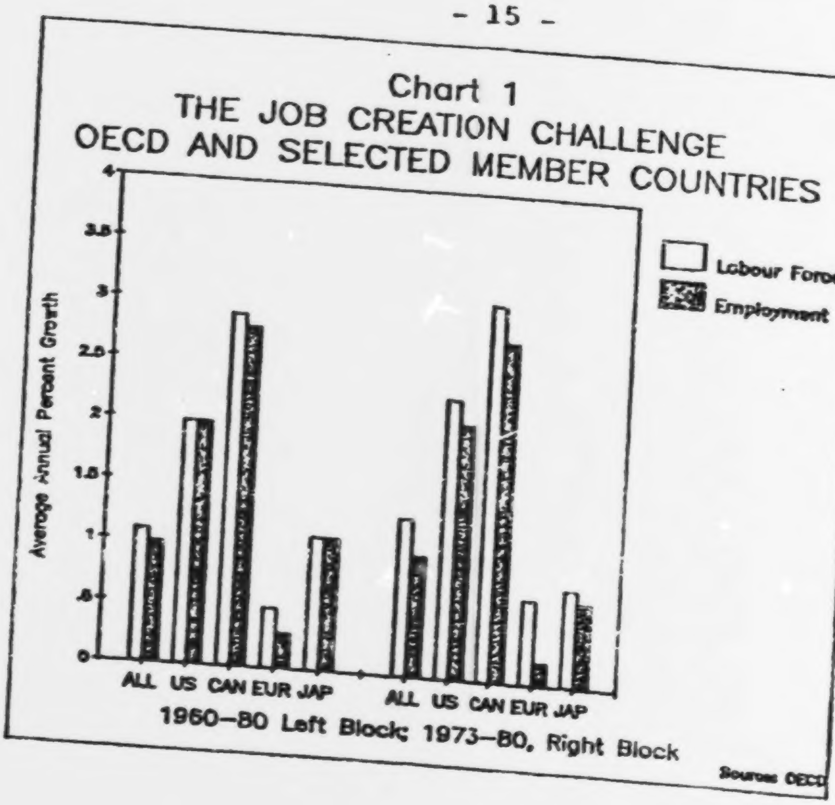

Chart 1
THE JOB CREATION CHALLENGE
OECD AND SELECTED MEMBER COUNTRIES

Source: OECD

Table 4 indicates that even before the recent recession got underway the North American economy was experiencing a slowing trend which began in the mid-seventies.

Table 4

THE SEVENTIES SLOWDOWN

Real Economic Growth in:	Annual Average 1962-73	 1974-80
The United States	4.2	2.5
Canada	5.8	2.7
Ontario	5.3	2.0

Source: The Ontario Economic Council, "The Ontario Economy, 1982-1995", Vol.1.

Focus on Canada and Ontario

The deceleration in economic growth since 1974 has a number of causes, including the post-1974 energy crises and rampant inflation. However, population growth has decelerated and productivity has plummetted. Labour force growth was strong, but unemployment rose sharply. Annual increases in purchases of consumer durables, especially automobiles, have been more than halved. Manufacturing's share of the economy has continued to downtrend and the sluggish performance here has registered in the transportation and storage industries. These developments are illustrated in Table 5.

Table 5

ECONOMIC TRENDS IN CANADA

	Annual Averages 1962-73	 1974-80
Increases in:		
Population (15 and over)	2.5	2.1
Labour force	3.0	3.2
Productivity	2.5	0.1
Consumer durables-autos	9.7	1.7
-excl.autos	9.5	4.8
Manufacturing	6.6	1.6
Transportation & storage	6.6	2.4
Manufacturing--% of RDP	.23	.22

Source: see Table 4.

These trends are also reflected in Ontario, which is the largest regional economy in Canada and the heart of Canadian manufacturing. For example, the manufacturing and transportation and storage industries increased by 1.0 and 1.8 per cent per annum respectively over the 1974-80 period, producing weaker growth than experienced in Canada as a whole.

The 1970s also saw a modest decline in Ontario's relative share of the national economy, both as a result of greater prosperity in other regions of Canada, notably Alberta and British Columbia, and problems of structural change in a number of industries. Table 6 shows that over the 1962 to 1980 period, personal expenditures per capita in Ontario, expressed as a percentage of the national figure, fell from 119.1 to 104.9. While the Province's share of population rose from 34.2 to 35.8 per cent over the same time frame, its take of national personal income dropped from 39.9 to 38.4 per cent and of retail sales from 38.1 to 35.3 per cent.

Table 6

ONTARIO'S SHARE IN THE NATIONAL ECONOMY

	1962 %	1980 %
Population	34.2	35.8
Personal income	39.9	38.4
Retail sales	38.1	35.3
Personal expenditures per capita*	119.1	104.9

* Relative to the national average (=100).

The Outlook

Indications are that real economic growth in Canada will run about 3.5 to 4.0 per cent per annum over the next decade, assuming a reasonably stable economic, fiscal and monetary environment. If achieved, this would represent a substantial improvement over the 1974-80 period, but considerably below the rapid expansion of the 1960s and early seventies. Chart 2 illustrates these trends. The unemployment rate is projected to remain unusually high through the rest of this decade. Of significance to freight transportation, the goods producing industries are not expected to do as well as service industries. The close relationship of goods production and manufacturing to the demand for transportation is indicated in Chart 3.

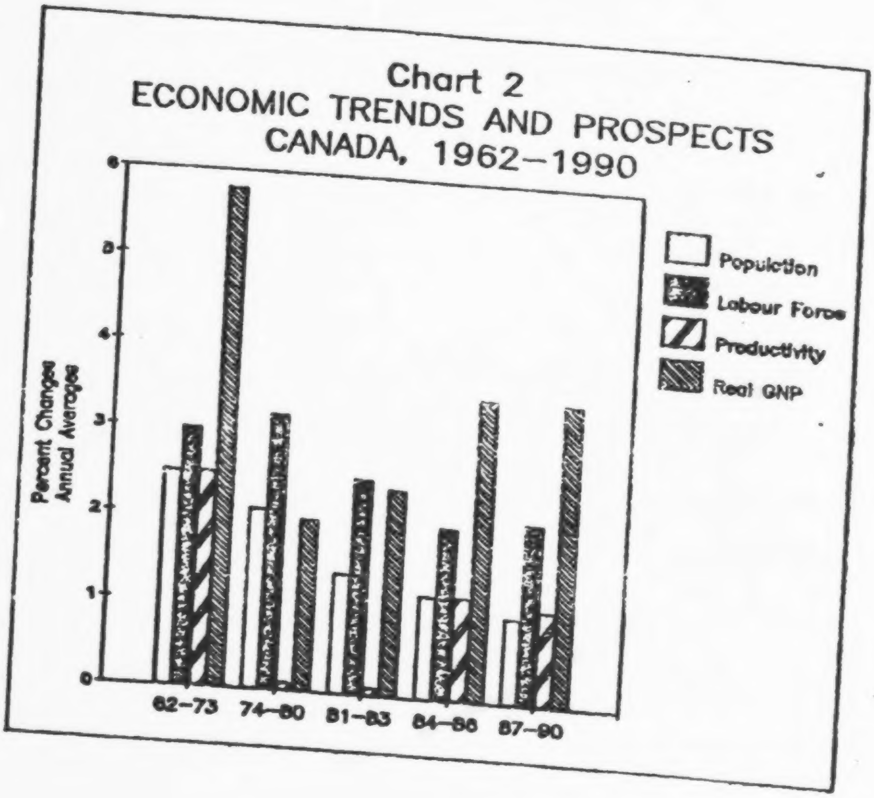

Chart 2
ECONOMIC TRENDS AND PROSPECTS
CANADA, 1962–1990

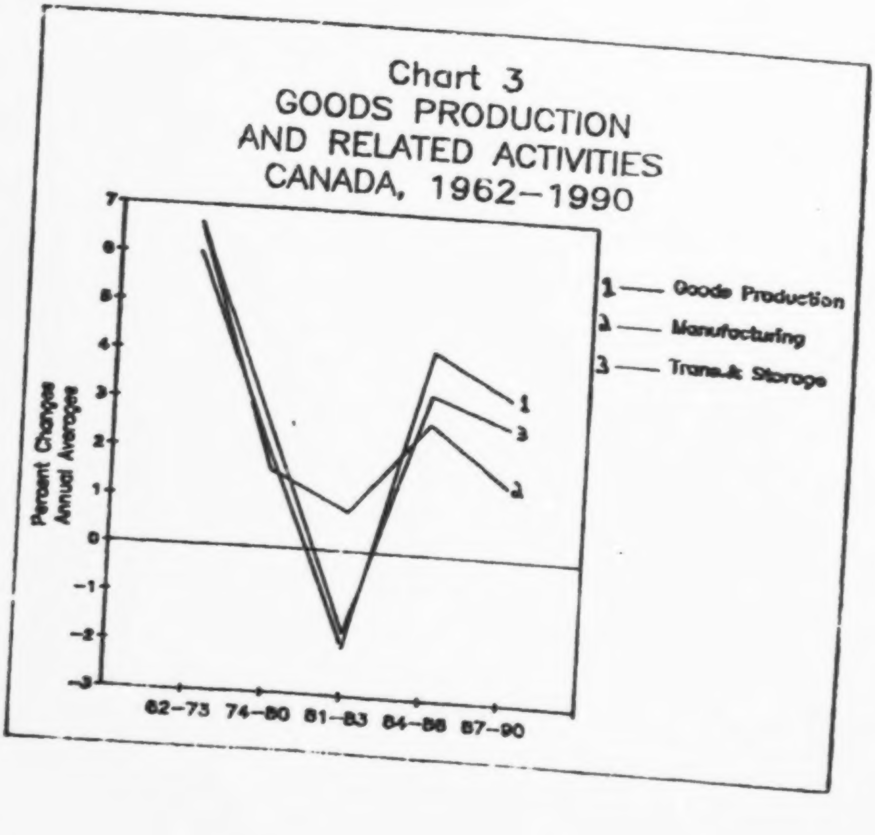

Chart 3
GOODS PRODUCTION
AND RELATED ACTIVITIES
CANADA, 1962–1990

Tables 7 and 8 give projections of some key economic variables for Canada and Ontario. Reflecting well established demographic trends, population growth in Canada is expected to continue to decelerate during the balance of this decade and will increase at about one-half the pace of recent years. Labour force growth will also be well below that of the past two decades. Employment levels will increase significantly, but the rate of unemployment will decline only slowly from current highs. Capacity utilization, which is currently at less than 70% (and well below this in some industries), will increase steadily to reach closer to peak levels by 1990.

Table 7

ECONOMIC PROSPECTS FOR CANADA TO 1990

	81-83	83-86	87-90
	(Average Annual Increases)		
	%	%	%
Population (15 and over)	1.5	1.2	1.0
Labour force	1.3	1.8	1.7
Productivity*	0.4	1.0	1.5
Employment	-0.6	3.0	2.1
GNP (real)	-0.1	4.1	3.5
Capacity utilization	.74	.81	.86
Unemployment rate	10.5	11.2	8.6
Manufacturing output	-2.6	3.7	3.0

Source: Institute for Policy Analysis, University of Toronto.
* GDP per employee.

Ontario is projected to grow marginally slower than the rest of Canada to 1990, with the result that the province's share of the national economy slips further to .386 per cent.

Table 8

ONTARIO'S ECONOMIC PROSPECTS

	Average Annual Increases 81-83 %	 83-86 %	 87-90 %
GDP (real)	0.1	3.8	3.6
Labour force	1.6	1.5	1.5
Employment	-0.2	2.7	2.1
Unemployment rate	9.3	10.3	7.4
Ontario share of GNP	.389	.387	.386

Although based on a rigorous econometric model[2], these long range projections are simply best guesses which attempt to approximate future prospects consistent with past trends and reasonably stable monetary, fiscal and other public policies. As mentioned previously, serious obstacles remain to sustained stable growth including high federal deficits and intractable unemployment. The economy also faces new challenges in meeting structural adjustments in the steel and primary metals industries, autos, housing and other consumer products. In particular, energy conservation, the downsizing of products and the technological revolution will have implications for the transportation industries which are at present not well understood. The outlook for the demand for Canadian and Ontario for-hire trucking services could thus be described as only fair for the rest of this decade. Domestic carriers can be expected to take strong measures to protect market shares.

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[2] Institute for Policy Analysis, University of Toronto.

5. FOR-HIRE TRUCKING FINANCES

The slowdown in the economy since the mid-seventies has impacted directly on the finances of the for-hire trucking industry. Changes in key financial health indicators are shown in Table 9, for all carriers, all Class 1 carriers and selected large carriers (as available from published information). In general, the economic slowdown seems to have impacted more heavily on the Class 1 carriers and in particular the larger ones. This may be because the larger carriers have a higher proportion of fixed costs in terminals and like facilities, investments which are typically not easily cutback. Large carriers thus likely have the greater relative excess capacity.

Looking at the ratio indicators, the operating ratio (operating expenses/operating revenues) for the industry was on an upward trend from .924 in 1974 to .967 in 1981. The economic recession hit hardest in 1982 so in all probability the trend has continued to worsen. The deterioration in the operating ratio of Class 1 carriers was more pronounced, as reflected in the higher levels attained, from .958 to .975. Selected large carriers saw their operating ratio rise even more markedly, from .954 in 1975 to .995 in 1981. These numbers suggest that many large carriers suffered losses in 1982. Chart 4 illustrates the squeeze on industry profits by portraying the decline in the net operating income as a percentage of total operating revenues.

The pressure on profitability is also apparent in the shrinking ratio of profits after tax/net worth, which declined from .156 in 1975 to .021 in 1980 for Class 1 carriers and from .144 to -.39 for the larger carrier group. Although data is not available for the industry for 1982, financial statistics for the transportation sector as a whole support the view of further weakening in trucking finances. For the total sector, the operating ratio was .97 in 1981 and rose to 1.00 in 1982, which indicates the sector made no profit last year.

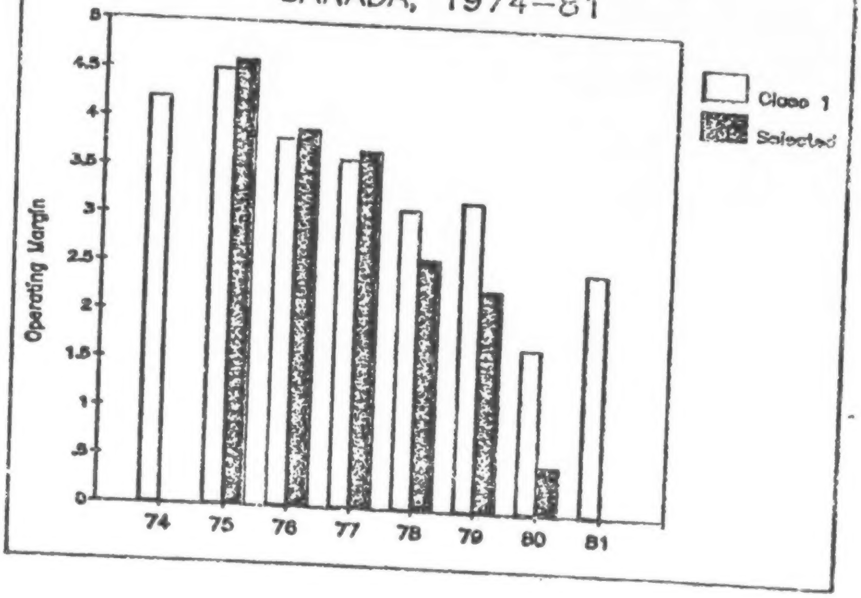

Chart 4
FINANCIAL PERFORMANCE IN THE FOR–HIRE TRUCKING INDUSTRY CANADA, 1974–81

To put some of these numbers in perspective, if for-hire trucking in 1981 had achieved the 1974 operating ratio profits would have been ~~28~~ about 130 per cent higher. If trucking did in fact see its operating ratio reach 1.00 in 1982 the difference between the 1974 and 1982 performance is equivalent to ~~over~~ about $250 million in profits in 1981 figures. It is apparent that a percentage point change in the operating ratio can have a big impact on net operating income.

The industry survives with a relatively low level of liquidity. The current ratio (current assets/ current liabilities) is usually below 1.00. Changes in this ratio reflect the economic cycle, but up to 1981 no particular trend seems evident.

The more fuller utilization of assets by the industry over the 1975-78 period helped to hold operating margins fairly stable. The revenue/assets ratio increased over this period, peaking in 1978 since when it has fallen. Large carriers make fewer dollars for each dollar of assets they deploy compared with the industry as a whole.

Shrinking margins have resulted in an increase in the industry's debt/equity ratio.

Table 9

INDICATORS OF FINANCIAL PERFORMANCE

FOR-HIRE TRUCKING INDUSTRY

CANADA, 1974-1981

	74	75	76	77	78	79	80	81
Operating ratio:								
-all carriers	.924	.956	.959	.958	.959	.958	.969	.967
-Class 1	.958	.955	.962	.964	.969	.968	.983	.975
-Selected large	-	.954	.961	.963	.974	.977	.995	-
Profitability ratio:								
-Class 1	-	.156	.135	.113	.086	.089	.021	-
-Selected large	-	.144	.134	.104	.049	.027	-.039	-
Current ratio:								
-all carriers	.910	.916	.885	.927	.922	.924	.890	-
-Class 1	.941	.956	.908	.956	.961	.962	.901	.948
-Selected large	-	.945	.893	.953	.976	.972	.913	.987
Net Debt/Net Worth:								
-all carriers	1.068	1.115	1.209	1.056	1.176	1.301	1.349	-
-Class 1	1.066	1.191	1.351	1.111	1.184	1.332	1.398	1.220
-Selected large	-	1.220	1.355	1.073	1.117	1.230	1.302	1.081
Revenue/Assets:								
-all carriers	1.583	1.593	1.685	1.749	1.750	1.733	1.650	-
-Class 1	-	1.547	1.650	1.745	1.753	1.726	1.616	-
-Selected	-	1.533	1.617	1.698	1.691	1.686	1.533	-
Accumulated Depreciation/ Original Cost:								
-Selected large	-	.488	.486	.475	.464	.447	.447	-

Over the 1975-80 period, the larger carrier group experienced the following compound annual growth rates:

- operating expenses--12.8 per cent
- operating revenues--11.8 per cent
- total assets--11.9 per cent
- fixed assets--12.5 per cent.

Thus, despite declining margins, the carriers continued to invest in new facilities, as indicated also by a modest decline in the accumulated depreciation/original asset cost ratio.

This financial overview, in combination with the economic outlook previously presented, suggests that Ontario carriers could experience considerable difficulties if an open border policy created new investment demands on the industry.

Overview of the U.S. Trucking Industry.

In 1981, 1,450 U.S. carriers with over $1 million of gross operating revenues (Classes 1 and 11) reported combined operating revenues of $28.6 billion. This compares with the $~~4.3~~ 5.7 billion reported by Classes 1, 11 and 111 carriers (earnings more than $100,000) in Canada. Thus, even though these figures overstate the relative size of the Canadian industry, it is equivalent to no more than 15 per cent of that in the U.S. In fact, it may be no more than 10 per cent.

The larger industry south of the border has also, on average, larger size companies than are typical in Canada. For example, three of the largest carriers, Roadway Express, Yellow Freight and Ryder alone account for over $2.6 billion in revenues, or the equivalent of the combined earnings of all Ontario Carriers. Moreover, these three carriers together earned $1.7billion of their revenues from LTL traffic.

Larger U.S. carriers also have more financial depth, on average, than Canadian carriers as indicated in the following comparison:

	U.S. Class 1* Instruction 27	Canadian Large Carriers
Operating ratio:		
1979	.965	.977
1980	.966	.995
Current ratio:		
1979	1.23	.97
1980	1.23	.91
Debt/Equity ratio:		
1979	.53	1.19
1980	.56	1.19

Their operating margins are bigger, although not healthy, liquidity is higher, and the debt/equity burden lighter. New investment is presumably easier in such circumstances.

Source: The American Trucking Associations, Inc.

The three big carriers mentioned above had a stronger financial performance than the industry average. Their operating ratios in 1980 and 1981 respectively were: Roadway .905 and .922: Ryder .937 and .950; and Yellow had .960 and .968. In 1981, Roadway Express employed 19,000 persons, had assets of almost $650 million and owned over 22,000 trucks, tractors and trailers. The Company had excellent liquidity with a ratio of current assets to current liabilities of 2.33 and was virtually debt free. LTL traffic accounted for 83 per cent of the Company's revenues.

It should be mentioned that U.S. carriers, like their Canadian counterparts, had a tough year in 1982. The American Trucking Associations, Inc. reports that the operating ratio rose to .983 and 45 of the top 100 carriers had losses, and thus operating ratios over 1.00.

6. INTERNATIONAL FOR-HIRE TRAFFIC

International for-hire trucking is, to all intents and purposes, a Class 1 carrier business. Table 10 shows the shares of Canadian and Ontario international traffic by carrier class for 1980, the latest year for which detailed data is available. Canadian Class 1 carriers, although representing no more than a quarter of the number of international carriers, reporting to Statistics

Canada, earned $1.7 billion, or 87 per cent, of the $1.9 billion in total revenues. They had similarly high percentage shares of total employees and operating units.

Table 10

INTERNATIONAL FOR-HIRE TRUCKING ACTIVITY IN 1980

CANADA

	Total	By Class		
		1	11	111
# Carriers reporting	523	122	141	260
Total revenues ($m)	1,942	1,691	158	93
Internat. revenues ($m)	489	413	50	26
Total expenses ($m)	1,862	1,623	151	88
# Employees	31,633	27,749	2,316	1,568
Equipment (units)	52,149	45,512	4,227	2,410

Table 11 shows the equivalent data for Ontario. Provincially domiciled Class 1 international carriers earned an even higher percentage of the total revenues earned by Ontario international carriers i.e. $256 million, or 92 per cent. The table also indicates 57 class 1 carriers were classified as international carriers in 1980. Thus, international for-hire trucking primarily impacts on a carrier group which is relatively small in number, but large in size.

Table 11

INTERNATIONAL FOR-HIRE TRUCKING ACTIVITY IN 1980

ONTARIO

	Total	By Class		
		1	11	111
# Carriers reporting	175	57	42	76
Total revenues ($m)	866	791	44	32
Internat. revenues ($m)	277	256	13	8
Total expenses ($m)	846	775	41	30
# Employees	16,079	14,761	721	597
Equipment (units)	28,145	25,922	1,376	847

Ontario's overall share of international for-hire trucking is shown in Table 12. The province has one-third of the establishments, but more than one-half for-hire activity e.g. 57 per cent of the international revenues and 51 per cent of the employees.

Table 12

ONTARIO'S SHARE OF INTERNATIONAL FOR-HIRE TRUCKING

1980

	Total	By Class		
		1	11	111
# Carriers reporting	33.5	46.7	29.8	29.2
Total revenues	44.6	46.8	27.8	33.3
Internat. revenues	56.5	61.9	26.1	30.7
Total expenses	45.4	47.8	27.2	34.1
# Employees	50.8	53.2	31.1	38.1
Equipment units	54.0	57.0	32.6	35.1

Table 13 shows the Ontario share distributed among the three classes of carriers. Though only one-third in number, Class 1 carriers have by far the dominant share of the market with all indicators at 90 percent or better.

Table 13

PERCENT DISTRIBUTION OF INTERNATIONAL FOR-HIRE TRAFFIC BY CLASS OF CARRIER, ONTARIO, 1980

	Class			Total
	1	11	111	
# Carriers	32.5	24.0	43.4	100.0
Total revenues	91.3	5.0	3.6	100.0
Internat. revenues	92.3	4.7	2.9	100.0
Total expenses	91.6	4.8	3.6	100.0
# Employees	91.8	4.5	3.7	100.0
Equipment (units)	92.1	4.9	3.0	100.0

Statistics Canada reports total Ontario international trucking revenues of $277 million in 1980, (down from $295 million in 1979). This number is understated because U.S.-domiciled carriers who cannot provide separate data for their Canadian operations are excluded. We have no way of knowing the true size of the total Ontario-U.S. trucking market. However, the Niagara Traffic Bureau reported $314 million of transborder traffic in 1980. This figure alone is 64 per cent of the amount of international revenues reported by

Statistics Canada. In 1981, NFTB transborder revenues were $347 million, and assuming NFTB traffic makes up 20 to 30 per cent of total traffic,(3) this could indicate a total transborder market of well over $1 billion, possibly close to $2 billion.

Analysis of the NFTB data indicates that growth in the international market, as measured by Niagara crossing, has been shrinking since 1975. Table 14 shows that between 1975 and 1979, tonnage grew at a 9.8 per cent annual rate. By contrast, it declined at an 11.5 per cent annual rate from 1979 to 1981. Revenues grew 12.6 and 1.3 per cent per annum respectively over the same periods. The marginal 1.3 per cent annual increase in 1979-1981 represents an significant decline in real terms.

The table also shows that LTL and TL traffic generated

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3. A survey by the Ontario Ministry of Transportation and Communications in 1977 found that the Niagara crossings accounted for 20.5 per cent of the total Ontario-U.S. traffic. See, "Survey of International Goods Movements by Truck, 1977".

Table 14

INTERNATIONAL TRUCKING TRAFFIC GRINDS TO A HALT

	1975	1979	1981	Growth Rates 75-79	Growth Rates 79-81
				%	%
All Traffic					
Revenues ($m)	210	338	347	12.6	1.3
Shipments (000s)	1,215	1,241	1,149	0.5	-3.8
Tonnage (cwt. m)	67	98	76	9.8	-11.5
Type of Traffic	(percent distribution)				
	%	%	%		
a) by revenues:					
M.C.	4.4	3.5	4.8		
LTL	41.5	35.6	42.2		
TL	25.6	22.5	18.1		
Auto-parts, TL	11.5	19.2	15.5		
Iron & steel, TL	3.7	4.9	5.2		
Other	13.3	14.3	14.2		
Total	100.0	100.0	100.0		
b) by weight:					
MC	0.5	0.4	0.4		
LTL	17.9	11.4	14.0		
c) by shipments:					
MC	32.9	26.6	31.3		
LTL	50.4	48.6	48.5		

Data Source: Niagara Frontier Tariff Bureau.

about 60 per cent of the revenues, with LTL alone producing approximately 40 per cent. LTL traffic represented about one-half of the total shipments, but only 14 per cent of the total weight. Thus the revenue per ton is highest for LTL traffic. LTL and MC traffic accounted for 80 per cent or more of the total shipments.

Table 15 uses the NFTB data to provide an overview of the balance of Canada-U.S. traffic in 1981. The table shows that shipments of U.S. origin produced $227 million in revenues, or 65 per cent of the total NFTB transborder revenues versus $120 million, or 35 per cent generated by shipments of Canadian origin. Of the total weight crossing the border, U.S. origin shipments were 54 per cent of the total. The share of revenues going to U.S. origin shipments is significantly higher than the share of tonnage because over three quarters of the LTL traffic and two-thirds of the TL shipments originate south of the border. The former freight in particular yields high revenues per ton. As well, of the total miles rolled in the NFTB traffic, considerably more than one-half were travelled in the United States. Given this 2:1 ratio of shipments in favour of U.S. origination of traffic and the much larger size of the U.S. economy it seems clear that Canadian carriers have a much smaller penetration of that market than do American carriers of the Canadian market.

Table 15
OVERVIEW OF INTERNATIONAL TRAFFIC, 1981

Shipments of:	Canadian Origin	U.S. Origin	Total
Revenues earned ($m)	120	227	437
Shares of LTL and TL:			
LTL	%	%	%
-by weight	25	75	100
-by revenue	26	74	100
TL			
-by weight	28	72	100
-by revenue	33	67	100
Contribution of Commodity Classes to Totals:			
LTL			
-by shipments	12	36	48
-by weight	4	11	15
-by revenue	11	31	42
TL			
-by shipments	1	2	3
-by weight	3	9	12
-by revenue	6	12	18
Total traffic			
-by shipments	30	70	100
-by weight	46	54	100
-by revenue	35	65	100
Percent of total miles trucked in U.S.	55	63	

Data Source: See table 5.

7. IMPLICATIONS OF OPEN BORDER POLICIES

International traffic is clearly very important to the health of the Canadian and Ontario trucking industries, especially the latter. The Board should be convinced that Ontario carriers would have fair and equal access to the U.S. market as a precondition to a "fitness only" transborder policy. Otherwise, there is a danger that Ontario truckers will see their market share reduced.

The evidence of Ontario carriers to the Board suggests that if open border trucking were to be implemented, some portion of the Ontario trucking industry would relocate in the United States. Among the reasons advanced for relocation are:

- such a policy would break established interline patterns, with Ontario carriers being bypassed;
- U.S. carriers would be in a position to maximize on their extensive existing capacity in terminal and operating equipment, established routes, shippers and so on;
- Canadian carriers would face weight and size obstacles, administrative cost and other constraints not faced by their U.S. counterparts;
- for political and other reasons, U.S. domicile would be important to compete on a head-to-head basis, notwithstanding the open border policy.

The Board will have to assess the true extent of deregulation in the United States and whether or not significant barriers to free market trucking will continue to exist. Protectionism has been on the ascendency in the international economy, and North America is no exception. Recent frictions in forest products and now steel products are indicative of the tug-of war going on in the U.S. between free trade and protectionist forces. The dissipation of such negative developments depends squarely on economic recovery. Time will tell if the recovery now underway will be sustained and vigorous enough to reduce unemployment to levels low enough to remove the political attractiveness of protectionist measures.

The coverage and quality of information is insufficient to allow full assessment of the economic impact of an open border policy. However, it is possible to guage a range of possible impacts on jobs and investment in Ontario, assuming varying degrees of relocation or dislocation of the Ontario international carrier industry.

Table 16

APPROXIMATIONS OF IMPACT OF RELOCATION BY ONTARIO CLASS 1 INTERNATIONAL CARRIERS

	Relocation Percentage			
	25	50	75	100
Potential losses:				
Employment (persons)* (1)	1,300	2,700	4,000	5,000+
Equipment (units) (2)	1,200	2,300	3,500	4,700
Purchases ($m)* (3)	250	500	750	1,000
Total assets ($m) (4)	100	200	300	400
Taxes ($m)*	90	170	260	350

The basic approach used in calculating these numbers is described in the appendix.

* These items include both direct losses and indirect losses resulting from negative multiplier impacts in the economy. A multiplier with a value of 1 is assumed. For example, if 100% relocation is assumed, direct job losses are estimated at about 2,700 and an equal number of jobs would be lost elsewhere in the economy due to the lost purchasing power.

The estimates given in Table 16 suggest that if the majority of Ontario-based Class 1 international carriers were to relocate or suffer severe dislocation of their operations, employment for over 5000 persons, about

$1 billion in annual purchases and $350 million in annual public sector revenues--as well as control of almost $400 million worth of assets and 4,700 units of operating equipment--could be at stake. By way of comparison, if one-quarter of the current Ontario industry were to head south, about 1,300 jobs, $90 million in assets and $250 million in annual purchases could be lost.

The above estimates are restricted to the universe available from Statistics Canada. Employment, purchases and tax loss calculations include both direct and indirect multiplier impacts. Time has not permitted an examination of the potential impact of an open border policy on tariffs, service levels or such factors as losses of future growth and disruption of intra- and extra-provincial traffic.

We should mention that none of the estimates of losses assume that all of the existing activity is lost when a carrier withdraws. The Ontario market will still be served. For example, the estimate of 5,000+ jobs lost if a high level of relocation or dislocation occurs assumes that no more than three-quarters of the existing jobs move with the carriers.

These estimates are offered as a guide to the Board of the potential range of losses which could be associated with an open border policy. However, they are approximations only.

8. INFORMATION FOR STRATEGIC PLANNING[*]

The importance of adequate, timely and focused information to assist effective strategic planning in the public and private sectors is receiving greater emphasis today than at any time in the past. Among the many reasons for this are the increasingly rapid pace of change, greater fluctuations in economic cycles and the tremendous explosion in information system capabilities through computer and communications technology advances.

Rapid technological and market developments and wide swings in economic fortunes dramatically increase the risks associated with today's business and public policy decisions. We believe the risks are greater in public policy, where the factors affecting policy choices and alternatives are enormously complicated. The National Energy Program is a prime example of over-reach in public policy, done without adequate information and consultation with the affected parties. Fortunately, the Government of Ontario has traditionally encouraged discussion and debate of important issues and problems and we are pleased to see this consultative spirit continued with the hearings on trans-

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This section formed the major part of the preliminary submission.

border trucking. Even so, we have concerns about the strategic managment information available to the Board in reviewing this important matter.

The Board is examining whether or not an open border policy would cause a major shift in the balance of trucking trade and how such a shift would impact on truckers, shippers, receivers and consumers. We have considered the questions put to the Board by the Ontario Trucking Association in its May 26th Preliminary Submission relative to the information which would be required to answer them and its availability. We have concluded that big information gaps exist and attempts should be made to fill them to complete the evidence available to the Board before it makes its recommendations.

INFORMATION ON THE TRUCKING INDUSTRY

We acknowledge that considerable information is available on the North American trucking industry. In the United States, basic financial and operating information is collected and disseminated by major trade associations, particularly the American Trucking Associations, Inc.

This includes detailed information on the operations of individual carriers in terms of operating and financial statistics and other facts. The federal government is also a key source through the Department of Transportation, the Department of Commerce, and the Interstate Commerce Commission. State governments undertake surveys and studies, as do universities and private consultants.

In Canada, the major source of information on trucking is Statistics Canada which undertakes extensive and increasingly regular surveys of the industry. This information is not available on an individual carrier basis. Federal and provincial government departments and agencies also research many aspects of trucking. Universities and consultants engage in trucking industry studies, but on a smaller scale than in the United States. In Ontario, the Ministry of Transportation and Communications does occasional surveys of provincial trucking. The Ontario Trucking Association supports industry research.

Despite the volume of data and research available, it has serious limitations in terms of contributing to a better understanding of the trucking industry in the economy. The most serious shortcomings are:

- o incomplete coverage of the industry
- o incompatibility of data
- o inconsistent time series
- o a bias in research to domestic regulatory matters.

Incomplete Coverage

In the United States, most data collected on a regular and consistent basis covers federally regulated carriers only. Not included are intrastate, local and exempt for-hire and private motor carriers. The ATA estimates that inclusion of these classes of carriers would approximately triple the total value of motor carrier services. Thus existing data vastly understates the total size and economic impact of the industry.

Canadian coverage of the industry is broader since Statistics Canada surveys inter- and intra-provincial trucking, including local and off-highway operations. The coverage is of regulated truckers only though, and similar data for private trucking is not available. Moreover, carriers earnings less than $100,000 in gross revenues are excluded. Other exclusions and omissions lead to a substantial understatement of the true scale of the for-hire trucking industry, the most significant being (i) businesses engaged predominantly in some other industry and which could not provide separate statistics for their trucking operations e.g. construction; (ii) U.S.-based carriers which can't provide separate accounts; and, (iii) establishments which could not be contacted, of which there were over 1,200 in 1981. Judged from the results of occasional surveys, it appears the absence of data on private trucking represents the major gap in the Canadian picture. Statistics Canada is embarked on a mission to correct this deficiency.

Problems also exist in properly identifying transborder flows and other important characteristics of for-hire trucking traffic. Notably absent is data on truck-load and less-than-truckload movements, either by class of carrier, by commodity, by points of origin and destination or by individual carrier. What we have is reasonable aggregate data on for-hire finances and domestic commodity movements. Information on cross-border traffic is far less complete and not linked particularly with financial performance.

Incompatible Information

Much of the facts and information on the transportation industries is collected by surveys, some of which are regular and the others occasional. The coverage of the surveys varies considerably such that linking the results to obtain a big picture view of the transportation sector is not always feasible.

Inconsistent Time Series.

An additional problem with data is inconsistency in time series, particularly in Canada. Occasional surveys do not produce time series or even necessarily consistent data. For example, most of the information generated by the MTC surveys of Ontario trucking is already at least 5 years out of date. Statistics Canada surveys, which are the backbone of information on for-hire trucking, have evolved over time in both coverage and structure. For some years in the seventies surveys simply were not completed so no data is available. The lack of consistent time series is a major obstacle to the assessment of the contribution of trucking to the economy. Statistics Canada cautions that comparisons of its data should not be extended beyond 1974. Moreover, many special studies carried out by the Canadian Transport Commission use basic Statistics Canada data and are largely outdated. We should also mention that the benchmark operating incomes for the classes of carriers has not changed in Canada since 1974, whereas the most recent update in the United States was 1980. Class 1, 11 and 111 revenue definitions are, in Canada and the U.S. respectively, $2 million or more vs $5 million or more; $500,000 to $1,999,999 vs $1 to 5 million; and, $100,000 to $499,999 vs under $1 million. Thus, the number of class 1 and 11 carriers are relatively overstated in Canada.

ANSWERING THE QUESTIONS POSED

Based on our analysis of the available information we shall now address how well it can answer the questions posed in the OTA preliminary submission.

Questions 1 to 6 inclusive revolve around the U.S.-Ontario trucking trade--its nature, characteristics, importance to private and for-hire carriers, and its trends and prospects. Existing published data does not allow adequate considerations of these questions. Information contained in the two basic Statistics Canada surveys is of little value for analyzing transborder trucking.

The For-Hire Trucking Survey does not cover any aspect of international trucking. It concentrates on the origin and destination of domestic intercity movements (defined as over 15 miles) and examines revenues, tonnage and ton miles. The Motor Carriers-Freight and Household Goods Movers Survey covers a considerably wider field than this. However, although it identifies international carriers as a separate group and includes provincial data, the only item broken into an international component is revenues. Since these revenues represent only a portion of the total earnings of these carriers (less than one-third) there is simply no way to breakdown other income and expense items, balance sheet or other operating data into their domestic and international parts. Furthermore, as mentioned previously, operations which are domiciled in the United States and cannot provide separate statistics for their Canadian operations are not included in the international estimates.

Also, all information is aggregated and thus details of the operations of individual carriers is not publicly available. Thus, in terms of understanding the international traffic flows and their relative importance to Ontario-based or other carriers, the two main data sources are simply a void. If these factors are to be better understood, other sources must be developed and exploited.

Much published information from other sources, including the Ministry of Transportation and Communications, while more focused to some of the questions before the board, is not very helpful since it takes the form of outdated and infrequent surveys. For example, the most recently published surveys by MTC, "A Survey of International Goods Movements by Truck, 1977" and "Ontario Commercial Truck Survey, 1978" were undertaken in 1976-77 and 1978 respectively. These two surveys formed the basis of Ontario's 'Truck Productivity Study' and were completed to "provide a sound data base for current and future truck policy decisions." --decisions which included those of transborder trucking. The five-year information lag is a major drawback in view of the changed economic environment. Another problem is that the surveys look at aggregate truck movements by type of carrier, by commodity and by origin and destination. Missing is analysis of the financial aspects of international trucking operations and any assessment of its overall importance to individual carriers or to Ontario generally. Also lacking is a picture of the total trucking industry so that international trucking can be placed in perspective. The Niagara Tariff Bureau continuing traffic studies are a step in the right direction, but they account for only a modest portion of the total international traffic flows.

The federal government has also been active in collecting information (other than through Statistics Canada). An Interdepartmental Committee for the Study of Competition in Transportation in 1978 launched a series of studies under the auspices of Transport Canada and Consumer and Corporate Affairs and the Canadian Transport Commission. These studies covered several aspects of for-hire trucking from the institutional framework to ownership patterns. This information is also somewhat outdated. For example, the study on definitions and characteristics of trucking markets used Statistics Canada tapes for 1975 to 1977 (the tapes used to produce the two main surveys noted above) plus an edited and aggregated version of data used by the CTC to produce their Waybill Analysis for the same years.

Question 7 asks about the contribution of trucking in the economy. This is a vital question, for the current contribution of trucking is the benchmark against which the impact of potential policy changes will be assessed. Changes in U.S. and Ontario shares of transborder trucking, as the Minister noted in his letter of April 19, could impact to the detriment of the Ontario industry. So far as we are aware, there are no reliable estimates of the total industry and its contribution to the economy. Statistics Canada estimates Gross Domestic Product and other major macro series by sector and publishes estimates of output, employment, corporate finances and other indicators for the total transportation sector. Estimates are also sometimes published for the major modes including air and rail, but no estimate is published for trucking. The information collected on trucking is generally not judged to be of sufficient quality to allow a separate breakout.

Consequently, to sketch a picture of the trucking industry we had to build on the data derived from the basic trucking surveys, supplemented from other sources.

Questions 8,9 12 and 13 deal with the more micro question of the carriers most involved in the transborder trade, both U.S. and Ontario carriers, and how new policies might affect them both positively and negatively. Existing published sources are totally inadequate for this purpose. Full consideration of these questions requires data and commentary from the carriers themselves.

Questions 8,9,12 and 13 all deal with questions which can only be handled with information derived by new sources which clearly and specifically address the transborder question from an Ontario-U.S. perspective. The questions focus on identifying the carriers who may be most affected, their specific market interests, financial health, ownership, size and so on. This information must come largely come from the carriers themselves. Thus, the additional information now being gathered by the OTA and individual carriers is essential to the Board's deliberations.

Questions 10 and 11 deal with the constraints facing Canadian and U.S. carriers who wish to set up business in the others' jurisdictions. These are vitally important questions not before addressed and the OTA and carrier information will also be important here.

SUMMARY OF FINDINGS ON INFORMATION

In our review of the trucking industry we have been struck by the difficulty of obtaining a big picture of the industry, its importance to the economy, and the relative balance and contribution of international trucking.

There is much information available, but it is largely uncoordinated and frequently out of date. More focused and current strategic information is essential to assist the Board in its deliberations. This can be accomplished partly through better integration of the current sources (as we have attempted to do), partly through new data currently being gathered by the OTA, and partly through redesign of strategic management information systems.

In our opinion, the Board, since it is required to advise and make recommendations to the Government on issues of major economic impact, should submit to the Government recommendations for the improvement of information on the trucking industry.

Statistics Canada states that the information it provides in its two main surveys serves :

> "To measure the size, structure and importance of the Canadian for-hire trucking industry.
>
> "To aid in the assessment of the industrial growth rate reflected by this activity and to provide information on regional development.
>
> "To assist in transportation studies, particularly in transportation planning.
>
> "To support the presentation of briefs, submissions and other reports to regulatory authorities and commissions.
>
> "To provide inputs into national statistical aggregates, such as the Gross National Product, which in turn are used for formulating national or regional economic policy."

We believe the surveys fail to meet the above critieria in several respects. First, For-hire trucking or trucking as a whole for that matter) is not identified in the national statistical aggregates, which makes us wonder about the quality of the inputs. Second, they also leave much to be desired in terms of aiding in the assessment of industrial growth as pre-1974 data is incompatible with later years. Third, because of the limitations we have discussed above, they underestimate the size of the for-hire industry and provide no benchmarks against which to judge the importance of this industry. Fourth, there is no way to determine accurately from the surveys the employment, assets and other factors associated with international trucking.

Neither is published data from the other sources geared to answering the big macro questions now being raised. We recommend, therefore, that the Board advise the Government on strategic information priorities in trucking, of the weaknesses in the existing information streams and systems, and suggest new directions for gathering the information required to properly address the transborder question, the contribution of trucking in the economy and other major questions.

What is needed is current and consistent information which:

- reports regularly on the situation in the trucking industry and its performance relative to key economic variables;
- establishes a sound basis for analyzing trends and developments and for forecasting;
- covers the industry in a comprehensive manner;
- identifies the international trucking market in more detail and assesses its importance and contribution to Ontario's economy. For example, the employment, assets, revenues, purchases and taxes generated by this activity;
- more closely integrates financial and operating data; and,
- compares and contrasts U.S. and Canadian performance in trucking generally and in international trucking.

Our impression is that the collection of data on trucking in Canada is more fragmented and uncoordinated than needs to be the case and that properly focused federal-provincial efforts could yield results, perhaps even with net savings in data collection costs.

Respectfully Submitted,

Bernard Jones.

APPENDIX

CALCULATION OF ESTIMATES OF ECONOMIC IMPACTS OF RELOCATION

Because of data limitations the approach adopted uses ratios and weights to estimate employment, equipment, assets, purchases, and taxes associated with the Ontario-based Class 1 international carriers international operations.

Employment

Total employment by Ontario-based international carriers was 16,079, of which 14,761 was by Class 1 carriers. Since a breakdown of employment by category is only available for the Class 1 carrier group, the following estimates of employment in international operations by job category were made:

Category	(a) Total Class 1	(b) % Distr.	(c) Est. Int. Carriers (axb)	(d) Revenue Ratio	(e) Est.Emp in Int. (cxd)	(f) Loss Wgts	(g) Est. Loss (exf)
drivers & help	13,168	.500)	7,601	.244	1,854	.8	1,483
	406	.015)					
maint. & garage	2,449	.093)	1,506	.244	367	.8	294
	232	.009)					
term.& plat.	6,514	.247	3,646	.244	889	.5	445
Sales & advert.	909	.034	502	.244	122	.9	110
Admin. &other	2,673	.102	1,506	.244	367	.9	330
Totals	26,351		14,761		3,599		2,622

Note that ratio (d) is international revenues/total revenues for Class 1 international carriers. Weights in (e) are estimates of possible percentage job losses in the various categories (best guesses).
Note also that the estimate losses (2,622) are equal to 74% of the estimated employment in international operations by Class 1 international carriers.

Equipment

Units of equipment in the total Class 1 group were 35,944. In all Class 1 international they were 25,922. Applying the revenue factor (d) above to the 25,922 figure yields 6,325 units in international operations. This number multiplied by the average job loss factor of .74 gives an equipment loss number of 4,680.

Expenses

Expense, or purchase losses were calculated along the same lines as in employment: international carrier expenses as a percentage of the expenses of the total Class 1 were 58.1%. This percentage was applied to major categories of expenses to which the same weights used in calculating employment losses were then applied. The weights are: garage; .5 for terminal and platform; and, .5 to .8 for various categories of transportation expenses.

The overall loss factor is 63 per cent of the estimated international expenses.

Assets

All Class 1 assets in Ontario were $877.8 million. This figure was multiplied by the ratio of international carrier revenue to total total Class 1 revenue to estimate the assets of Ontario international carriers. This estimate was then multiplied by the .74 job loss factor to yield estimate asset losses.

Taxes

Taxes were estimated by calculating the ratio of total government revenues (federal, provincial and local) from taxation as a percentage of GNP less CCA and misc. inventory valuation adjustments. This ratio of expense losses.

The above loss estimates include only the direct or first-stage impacts. Results have been rounded in Table 16 to reflect the fact that they are approximations.

The Canadian L'Association
Manufacturers' des manufacturiers
Association canadiens

One Yonge Street, Toronto, Ontario M5E 1J9
(416) 363-7261 Telex: 065-24693

June 29, 1983

Mr. G. Marrs
Chairman
Ontario Highway Transport Board
151 Bloor Street West
10th Floor
Toronto, Ontario
M5S 2T5

Dear Mr. Marrs:

The Canadian Manufacturers' Association is pleased to present the attached submission concerning the International Balance of Trade in Trucking Services.

As an Association representing approximately 2500 Ontario manufacturers, we are very much aware of the importance of trade between Ontario and the United States, and the vital role played by the trucking industry in sustaining this trade. As the statistics in our submission demonstrate the prosperity of this province depends upon this flow of goods, particularly manufactured goods transported by truck.

The CMA thanks the Board for this opportunity to present this submission for the Board's consideration.

Yours very truly,

V. R. Denholm
Manager
Ontario Division

VRD/mf

enclosure

CMA GETS THINGS DONE
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The Canadian Manufacturers' Association

L'Association des manufacturiers canadiens

SUBMISSION BY

THE CANADIAN MANUFACTURERS' ASSOCIATION

TO THE

ONTARIO HIGHWAY TRANSPORT BOARD

ENQUIRY INTO THE

INTERNATIONAL BALANCE OF TRADE
IN TRUCKING SERVICES

JUNE, 1983

THE CANADIAN MANUFACTURERS' ASSOCIATION

WHAT IT IS

The Canadian Manufacturers' Association is the spokesman for manufacturers of every size and kind across Canada. About 75% of all the goods made in Canada are produced by CMA member companies.

PURPOSE

To undertake studies of manufacturers' opportunities and problems both domestic and international and propose courses of action.

To present the views of manufacturing industry to governments.

To communicate to Canadians the importance of a healthy and growing manufacturing industry.

To provide manufacturers with information services essential to their day-to-day operations.

To provide liaison with associations of manufacturers in other countries directly and through international organizations.

HOW IT WORKS

The CMA is structured nationally, provincially and locally. The Association's seven regional Divisions and 33 local Branches may deal finally with matters that lie purely within their respective jurisdictions, and their elected representatives participate fully in the national body's policy making.

CMA policies and views are the product of committees made up of acknowledged leaders and experts from member companies. They bring to CMA practical experience in the successful operation of manufacturing enterprises. These committees are assisted by a full-time staff of more than 100, including well recognized professionals working from nine offices across Canada.

L'ASSOCIATION DES MANUFACTURIERS CANADIENS

RÔLE

L'Association des manufacturiers canadiens est le porte-parole des entreprises manufacturières implantées partout au Canada, quels que soient leur taille et leur genre. Environ 75 pour cent de tous les biens fabriqués au Canada sont produits par les sociétés membres de l'AMC.

OBJECTIFS

Effectuer des études tant sur les occasions d'affaires que sur les problèmes qui se présentent aux manufacturiers aux niveaux national et international et proposer des plans d'action.

Exposer les vues du secteur manufacturier aux gouvernements.

Sensibiliser les Canadiens à l'importance d'une industrie manufacturière saine et florissante.

Fournir aux fabricants les services d'information essentiels à leurs activités quotidiennes.

Servir de lien, soit directement, soit par le truchement d'organismes internationaux, avec les associations de fabricants des autres pays.

FONCTIONNEMENT

L'Association est structurée sur les plans national, provincial et local. Ses sept Divisions régionales et ses 33 Sections locales sont habilitées à traiter de façon définitive des questions qui relèvent exclusivement de leur juridiction respective; leurs représentants élus participent pleinement à l'élaboration des politiques de l'organisme national.

Les politiques et les vues de l'AMC sont le fruit du travail de comités composés de chefs de file et de spécialistes renommés au service des sociétés membres. Ceux-ci font profiter l'AMC de leur expérience pratique dans l'exploitation fructueuse d'entreprises manufacturières. Ils sont assistés par un personnel à plein temps de plus de 100 personnes et qui comprend d'éminents membres des professions libérales dans neuf bureaux situés dans les diverses régions canadiennes.

SUBMISSION BY
THE CANADIAN MANUFACTURERS' ASSOCIATION
TO THE
ONTARIO HIGHWAY TRANSPORT BOARD
ENQUIRY INTO THE
INTERNATIONAL BALANCE OF TRADE
IN TRUCKING SERVICES

The Canadian Manufacturers' Association has an abiding concern for access to efficient, reliable, low-cost truck transportation to and from the United States. The United States is our single biggest market and our largest supplier of goods. The total two-way flow of manufactured goods alone between Ontario and the U.S.A., most of which is carried by truck, amounts to $43 billion as the following table illustrates.

TABLE I (1982 approximate figures in billions)

	World	USA	Per Cent To USA
Exports-Ontario			
Total Goods	$35	$30	86
Manufactured Goods	$24	$20	83
Imports-Ontario			
Total Goods	$39	$33	85
Manufactured Goods	$27	$23	85

A recent initiative by the Ministry of Industry and Trade in the area of export development recognizes that Ontario's prosperity, which is manufacturing based, must expand in order to provide future growth, wealth and jobs in this province. Their program hopes to see a $30 billion increase in exports in the next five years. The for-hire trucking industry is playing and must continue to play its important role in aiding this vital flow of goods. Actions taken by Ontario regarding the licencing of carriers must not in any way jeopardize our competitiveness in international trade with the United States.

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At the present time the Ontario Highway Transport Board applies the strict test of Public Necessity and Convenience when United States based carriers apply for operating authority in Ontario. Should a U.S. based carrier want to operate in more than one province it must also apply to each provincial government. In addition the federal Government's Foreign Investment Review Agency must approve all foreign takeovers of a Canadian company.

There are a number of other requirements in the way of the U.S. applicant. These include customs regulations, immigration laws, Combines Investigation Act, workmen's compensation and unemployment insurance regulations and sales and income tax requirements. While these are legitimate conditions they can affect the ability and willingness of carriers, especially foreign i.e. U.S. based carriers, to do business in Ontario.

This licencing under the Public Commercial Vehicles Act has been costly, time consuming and detrimental to the free flow of goods between Canada and the United States. The process should be streamlined as recommended in the report of the PCV Act Review Committee.

The passage of the Motor Carrier Act of 1980 by the U.S. Congress substantially eased U.S. licencing requirements while no similar initiatives were undertaken in Canada. A great many Canadian domiciled carriers took advantage of this situation and filed for U.S.running rights.. The result was an outcry from U.S. trucking companies who felt that existing law and policy in Canada was effectively discriminating against them. U.S. motor carriers stated that Canadian policy was anti-competitive and having a discriminatory effect, depriving them of single-line participation in the transportation of international freight. This resulted in an investigation by the Interstate Commerce Commission and a moratorium on Canadian applications. The issue was eventually settled with no evidence of discrimination having been proven. However, governments of both countries recognized that differences in their respective licencing requirements had the potential for creating a major shift in the balance of trade in trucking services. In recognition of this fact the two governments agreed to establish a consultative mechanism to

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investigate and consult on the full range of international truck transportation problems. Ontario must play a constructive role in this process and assist in removing the existing differences between Canadian and American legislation.

This dispute, the following investigation and the subsequent five-point understanding between the federal governments of both countries is evidence beyond question that this issue has serious national and international implications. Section 4(e) of the National Transportation Act states that extra-provincial for-hire motor vehicle undertakings are a federal responsibility. In section 22(1) (a) the Canadian Transport Commission is given the power to "inquire into and report to the Minister upon measures to assist in a sound economic development of the various modes of transport." While the federal Government has decided, for the time being, to leave the licencing of this type of transportation in the provincial domain, changes affecting extra-provincial motor vehicle transportation clearly are of interest to the federal Government. It is our understanding that protection of an industry, in this case extra-provincial trucking, is also a federal responsibility. The Department of Justice has said that extra-provincial transport is a federal domain in both Canada and the United States and provincial governments therefore are not capable of entering into formal and binding international legal instruments.

This raises the question of the rights and powers of the Ontario Highway Transport Board on an issue that is basically federal. We believe the O.H.T.B. should be very careful in its report that it does not exceed its mandate. When considering this issue the Board should bear in mind that its concern should be with the larger consumer public not just the shipper and trucking interests that appear before the Board. This enquiry must not make recommendations that in any way restricts public use of a highway, interferes with the free flow of commerce, or discriminates against one group of carriers in favour of another. The O.H.T.B. should contemplate the possible repercussions if the Government of Ontario is perceived as acting in a restrictive and discriminatory manner towards American carriers.

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The Ontario trucking industry has profited and grown under the present regulatory environment. The CMA agrees with the recently released report of the PCV Act Review Committee; regulatory reform is overdue and Ontario should abolish the restrictive test of Public Necessity and Convenience, replacing it with a simpler fitness test. The Ontario trucking industry is mature and stable enough to withstand a freer entry process and competition from U.S. based carriers. If this were not the case then Canadian carriers would not now themselves be expanding their operations into all areas of the continental United States. It seems paradoxical to us that the Canadian industry maintains it cannot survive if U.S. carriers are allowed operating rights in Ontario while at the same time its members are aggresively expanding into the United States. We applaud this expansion as it will assist manufacturers in reaching distant markets quickly and we hope economically. However, we see no reason why direct-line transborder transportation should be reserved for Canadian based carriers to the exclusion or restriction of American motor carriers.

Trucking companies in Ontario maintain they will be put out of business if some large U.S. carriers are granted Ontario operating authority. The CMA does not subscribe to this theory. We heard the same claim when United Parcel Service sought to enter the Ontario market. The result of that application was a higher level of healthy competition, lower rates and improved service from all small parcel carriers. There is every reason to expect the same results should additional U.S. based trucking companies be granted Ontario operating authority.

Each move to liberalize regulation has been resisted as being unnecessary by many firms in the industry who claim there is already too much competition. The CMA is concerned that if we remove the possibility of new entry trucking companies will shift to non-price competition with an increase in costs, reduction in efficiency and higher rates. As the theory of contestable markets makes clear, it is not the number of firms in the marketplace alone

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that determines the intensity of competition. What is important is the availability of potential substitutes and the relative ease to enter the industry. If there is to be effective competition these factors must be taken into account.

The Ontario industry further argues that it cannot compete, given the size and resources of the U.S. motor carriers. Certainly some U.S. carriers are giants in that field, but many Canadian firms are not without their own substantial backing. For example:

Brazeau Transport Inc.
Canadian Pacific Express and Transport Ltd. (CPET)
Dominion Consolidated Truck Lines Ltd.
Inter-City Truck Lines (Canada) Ltd.
Kingsway Transports Limited
Laidlaw Transports Ltd.
Motorways Limited
Route Canada
TNT Canada Inc.

All these companies have substantial resources, either from their various transportation activities or from other business interests. CPET for instance, is part of the largest industrial conglomerate in Canada. It should be recognized too, that Canadian companies already have an Ontario organization, facilities, fleets and customer base, which gives them an unquestionnable advantage over new entrants into the market. Many of these Canadian companies have been expanding into the U.S. over the past several years developing single line routes into the American heartland as we mentioned previously.

Repeatedly we are told that deregulation of the trucking industry in the United States has resulted in numerous problems for the industry and for shippers. Admittedly the less regulated environment has seen many changes in traditional ways of doing business and not all the results have been

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positive. However, the proponents of a return to greater regulation fail to mention that the problems of the American industry are a reflection of many factors, not just the Motor Carrier Act. Other very significant factors include:

- the current severe two-year recession
- increased competition for less traffic
- cyclical nature of the industry
- historic low level of profitability
- rapidly increasing costs during the late 1970s
- inability to pass on increased costs due to increased competition and less volume
- high interest rates
- over-expansion by some carriers
- unreasonably optimistic projections of market growth potential which led to over-investment in equipment

These are the primary factors that caused problems in the industry. The deep shock of the current recession should not be used as a reason to restrict U.S. carriers entering the Ontario market.

A regulated regime with strict entry control, be it for Canadian or American carriers, works on behalf of the trucking industry, not the public. The U.S. experience has shown that carriers can respond to increased competition by showing more flexibility in responding to changing market conditions. Increased competition has produced the expected benefits to consumers of greater choice, new services and lower rates.

Predatory pricing will not result should more American carriers obtain Ontario authority. While we do not expect it, the Government could enact legislation prohibiting predatory pricing should the need arise. Predatory pricing is plainly not profitable and is recognized as being destructive in the long term. Only a company with a dominant position in the industry or with deep financial resources to draw upon will find predation to be an acceptable marketing strategy. Given the resources and established position of the larger Canadian firms it would not be possible for a new American entrant to assume this course. Restriction of competition invites predation while open competition, with easy entry makes predation unproductive.

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In summation, the CMA recommends that all carriers whether domiciled in Ontario or the United States be treated equally before the Board. All carriers should be made subject to exactly the same regulatory provisions. Transborder markets should be reciprocal and open to all carriers who want to participate and who meet the application requirements. The success or failure of a trucking enterprise, be it Canadian or American, should be decided by the market. We do not see any evidence that the Canadian trucking industry will be seriously threatened or weakened by allowing U.S. carriers access to the Ontario market. We do foresee individual carriers entering and leaving the market as the normal result of free market activity. The result of this competition will be a more aggressive, better managed and ultimately successful trucking industry, an industry vital to the economic prosperity of Ontario.

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CMA GETS THINGS DONE

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Manufacturers' Association
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July 4, 1983

RECEIVED
JUL 5 - 1983
THE ONTARIO
HIGHWAY TRANSPORT BOARD

Mr. G. Marrs
Chairman
Ontario Highway Transport Board
151 Bloor Street West
10th Floor
Toronto, Ontario
M5S 2T5

Dear Mr. Marrs:

The Canadian Manufacturers' Association's submission to the Ontario Highway Transport Board Enquiry into the International Balance of Trade in Trucking Services, sought to impress upon the Board the necessity of establishing equal treatment for all licence applicants, be they Canadian or American based. I am not sure our message was understood given the nature of the questions presented that were directed almost exclusively towards my understanding of the trucking industry's problems.

In the CMA publication "Competing in the Global Village, Self Help is the Best Help" we have examined the challenge facing Canadian manufacturers. A copy of this publication, which has had a wide circulation to industry and government, is enclosed for your information. The central theme that emerges in this booklet is that Canadian manufacturers must improve their competitiveness and intensify their efforts to sell in foreign markets. Ontario and Canada can not consider their position in isolation. We live in a global village and there is no room for protectionism.

The trend, according to economists, is towards a North American integrated economy. The competitiveness and magnitude of this trade demands a trucking industry serving the public need. This should be the objective of that industry. It was apparent that the industry was more interested in discrediting the CMA submission through adversary questioning than in responding to the concerns of shippers to which we referred.

Manufacturers are making intense efforts to improve their competitiveness and the trucking industry, rather than seeking additional protection should also show this same initiative and aggressively go after markets. All sectors must contribute to improving Ontario's competitive position. A protected Ontario trucking industry will be a major constraint in the way

...2

VANCOUVER OTTAWA
EDMONTON MONTREAL
WINNIPEG MONCTON
TORONTO HALIFAX

of improving Ontario's international competitiveness. Our submission was meant to give the Enquiry a perspective of this important issue from the point of view of those who use trucking services, shippers, receivers and consumers. I hope the Board will consider it in this regard.

Mr. Frederick S. Burbidge, Chairman and Chief Executive Officer, Canadian Pacific Limited in his address this year to shareholders made an interesting comment that relates to this Enquiry. He said ".....we do live in a global village. We have watched some countries overtake us and we are seeing other rapidly gaining on us. The world has become more competitive than any of us would have thought possible just a decade ago. Given the creative possibilities of competition, this can be a very good thing for all concerned, but only if we are prepared to be flexible and adaptable to economic and social change."

I thank you for the opportunity to present the CMA's submission and hope Competing in the Global Village provides you with additional insight into the problems and needs manufacturers anticipate in the years ahead.

Yours very truly,

G.K. Gray

Gary K. Gray
Manager
Transportation

GKG/mf

cc The Honourable James W. Snow, M.P.P.
   Minister of Transportation and Communications

The Canadian Manufacturers' Association

L'Association des manufacturiers canadiens

Competing in the Global Village

Self-Help is the Best Help

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September 1982

Action for
Survival And
Productivity
ASAP

Competing in the Global Village

Self-Help is the Best Help

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Executive Summary

"Make no mistake about it; we're in an economic war and if we, as a country, don't get off our butts and improve our competitiveness, we're going to lose this war and pay a heavier price than we could ever imagine."

Rod Bilodeau
CEO, Honeywell Inc.
Scarborough, Ontario

This is how one CEO describes the challenge facing Canadian manufacturing. It reflects an overall assessment that there needs to be fundamental improvement in the international competitiveness of Canadian manufacturers. This is necessary to achieve substantial improvements in real profit performance that are required in order to attract investment needed for growth, modernization, productivity and the sustained creation of new jobs.

These "chicken and egg" problems deeply concern the Board of Directors of the Canadian Manufacturers' Association. They need to be solved now, before it is too late. The Board has concluded that the key is to recognize and solve the root problem, namely the need for management itself to improve. To help in this process, this paper has been developed to suggest new ideas and new initiatives, based on searching discussions with a wide range of Canadian manufacturers. It analyzes trends and suggests management responses in the four key selected areas of marketing, technology, finance and human resources. Its basic thesis is that in each of these areas, there is or will be a "new ball game" requiring a new management response if productivity, and hence competitiveness, is to improve.

Marketing: most Canadian firms will have to be internationally competitive and for most this will mean more intensive efforts to sell abroad. Achieving economies of scale that exporting will make possible will be the key.

Technology: management must make better use of technology as a competitive weapon. This will require increased emphasis on technology management and investment.

Finance: management must achieve substantial improvements in real profit performance in order to attract investment needed for growth.

Human Resources: our highly educated labour force is not providing Canada with the significant comparative advantages that it should. Management, therefore, must creatively deal with the diverse, new attitudes of today's workers in order to increase the contribution workers make to improving productivity.

This paper does not deal with the elements of competitiveness, such as government policy and union attitudes, that are beyond management control. But what is within management's control—improving its own performance—provides the opportunity to very significantly improve competitiveness. This is what the paper is about. Manufacturers hope that their initiative in undertaking this exercise will help them to influence the community, governments and unions to new courses of action that will remove constraints on manufacturers. If so, the self-help initiatives the paper suggests are necessary will be easier to implement.

The initiatives suggested in this brief paper are necessarily general and need to be tailored by each company to its own needs. Each company must make its own strategic assessment of its strengths and weaknesses and find its own distinctive solutions within the Canadian context. And this applies whether a company is Canadian or foreign-controlled because the objective of improved performance in the Canadian environment is the same.

Self-appraisal is the first step and CMA plans to follow up this paper by developing questionnaires which any company can use to examine its own management of marketing, technology, finance and human resources. The Association will also survey its members to determine what information it should provide to help them initiate specific productivity improvement programs.

The Problem

EMF Analysis

A good starting point to obtain an assessment of just where Canadian manufacturing stands in its relative competitive position is the comprehensive analysis of 21 major industrialized countries carried out by the prestigious European Management Forum (EMF).*

The EMF studied 240 criteria, both qualitative and quantitative, and combined them into a "competitiveness scoreboard" where each country is ranked on a range of indicators. (See Chart 1.) Although Canada ranks reasonably well overall (i.e. in fifth place) the disturbing aspect of the results is that Japan's overall numerical rating (not shown on the chart) is more than three times that of Canada, and that of the United States, our most important trading partner and major competitor, is almost twice as favourable as that of Canada. These overall ratings alone are enough to justify a re-examination of the reasons for this gap and how it can be closed.

EMF Competitiveness Scoreboard

An international comparison of industrial competitiveness shows Canada ranked fifth in 1981, ahead of most other countries but well behind the four leaders.

CHART 1
EMF COMPETITIVENESS SCOREBOARD RANKING BY COMPETITIVENESS FACTOR, SELECTED COUNTRIES, 1981

FACTOR	Jap.	Swi.	U.S.	W.G.	Can.	Swe.	Net.	Fra.	U.K.	Bel.	Ita.
1. Dynamism of the Economy	1	11	3	2	8	18	14	4	15	9	5
2. Industrial Efficacy and Cost of Production	1	2	3	4	6	18	11	7	13	12	18
3. Dynamics of the Market	1	3	4	1	7	8	11	14	13	12	20
4. Financial Dynamism	3	1	5	7	2	8	16	10	6	19	17
5. Human Resources	2	4	1	10	5	3	9	11	15	14	20
6. Role of the State	7	4	10	10	1	18	19	14	13	20	16
7. Infrastructure	5	6	1	12	9	4	11	7	2	12	17
8. Outward Orientation	2	8	10	1	15	9	3	6	5	4	13
9. Forward Orientation	1	4	2	3	13	5	7	9	17	18	18
10. Socio-political Consensus and Stability	2	5	12	9	11	7	1	21	16	15	20
Overall ranking	1	2	3	4	5	6	7	8	12	17	20

Jap. Japan
Swi. Switzerland
U.S. United States
W.G. West Germany

Can. Canada
Swe. Sweden
Net. Netherlands
Fra. France

U.K. United Kingdom
Bel. Belgium
Ita. Italy

Note: See Appendix for description of factors used in ranking.

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* *The European Management Forum is a European-based research institute with an international reputation for promoting exchanges of information between business leaders. Its report which is a source for many of the statistics in this paper was prepared to enable business leaders to identify the strengths and weaknesses of industry in particular countries.*

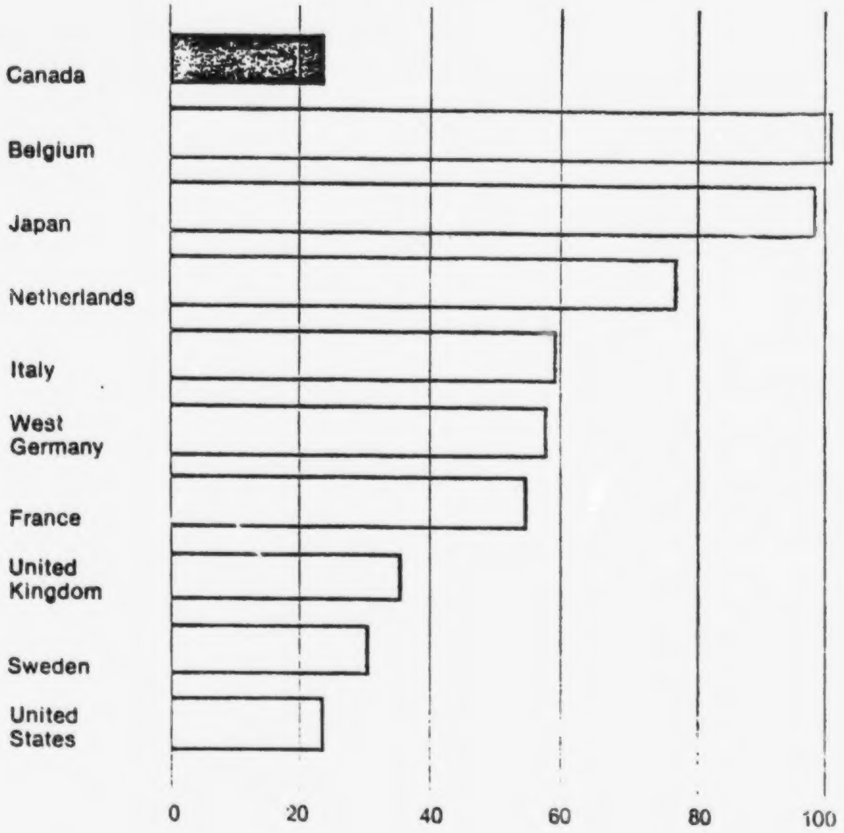
In summary, for Canada what emerges in the EMF study is the picture of a country where much of its advantage rests on obvious natural potential and assets. From an objective international perspective the overall political, social, and economic environment is relatively attractive despite the commonly held views of Canadian businessmen to the contrary.

Most of the elements that prevent Canada from being ranked much higher overall seem to be within the direct ability of Canadian management to influence, either directly within their enterprises or indirectly through their relationship with unions and governments.

Labour Productivity

Canadian and U.S. productivity growth has lagged well behind that of most industrialized nations eroding Canada's ability to compete in global markets.

CHART 2
INCREASE IN MANUFACTURING OUTPUT PER MAN-HOUR, PER CENT INCREASE, 1971-1981, U.S. DOLLAR BASIS

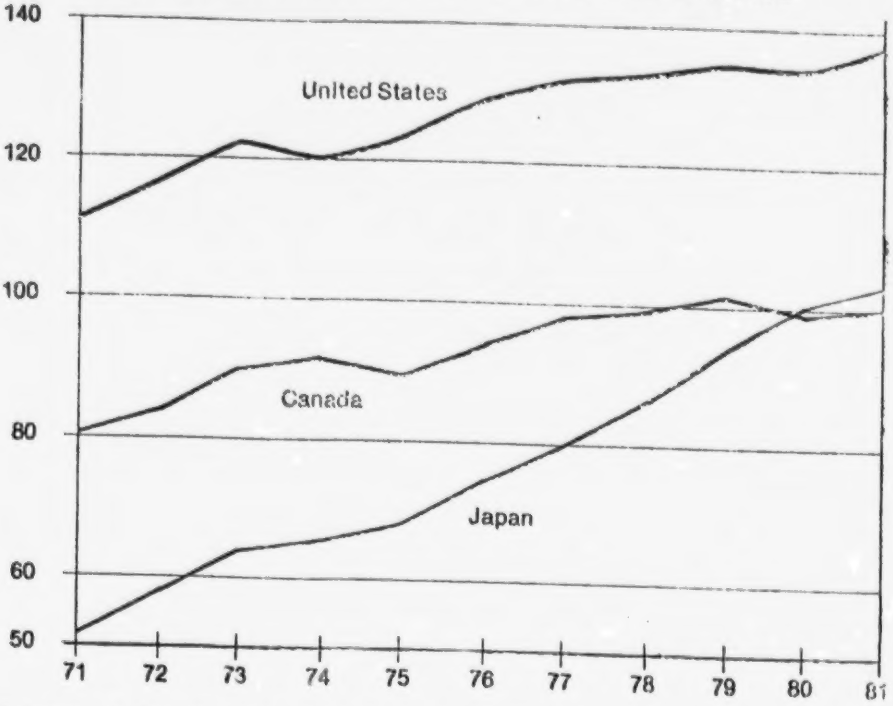


Source: U.S. Department of Labor and CMA Economics Department

Labour Productivity

Canadian labour productivity continues to lag behind the U.S. level while Japanese and European competitors have narrowed or in some instances eliminated the productivity gap.

CHART 3
CHANGE IN MANUFACTURING OUTPUT PER MAN-HOUR INDEX, CANADA 1981 = 100, U.S. DOLLAR BASIS



Source: U.S. Department of Labor, D.J. Daly, and CMA Economics Department

U.S. Dept. Labor Data

Productivity is an all encompassing concept that is difficult to capture totally in statistical terms. Nevertheless, looking at some broad indicators of productivity performance, during the 1970s Canada's record in manufacturing has not been particularly good. Data recently published by the U.S. Department of Labor shows that in the 1970s Japanese productivity growth was by far the most outstanding, with a growth in output per man-hour of 98 per cent. (See Chart 2.) Canada comes at the bottom of the list with a 24 per cent increase, trailing other industrialized nations.Chart 3 shows that Canadian labour productivity continues to lag behind the U.S. level while the Japanese have now caught up and passed us. Productivity growth measures show that other industrialized countries have also been catching up with North America.

Productivity is a ratio of output over input (in this case the denominator is labour input) and the increases in productivity growth in the countries mentioned have been achieved by very different records of growth in output and labour input. For Britain, it is literally a case of de-industrialization as the level of output has fallen by four per cent in the decade and employment has dropped by 25 per cent.

Japan's success is based on a remarkable 92 per cent increase in total manufacturing production which was achieved with essentially no increase in total employment in this sector over the decade. Canada's relatively poor productivity growth is based on a reasonably good output growth of about 36 per cent combined with the largest employment increase of any of the major Western industrialized countries: 14 per cent.

An Immediate Problem

We have agonized over our poor productivity growth and its impact on our international competitiveness. We have too long thought of this as a medium - and long-term problem. It is not. It has turned into a very immediate struggle for survival. Action must be taken now, or it will be too late. In a world of freer trade, as well as rapid restructuring and rapid introduction and transfer of technology, the survival of entire industries in Canada depends on improving productivity growth so as to remain competitive.

For purposes of this paper we use the EMF definition:

> "Industrial Competitiveness is a measure of the immediate and future ability of industrialists to design, produce and market goods whose price and non- price qualities form a more attractive package than those in competitors abroad or in domestic markets."

Elements affecting competitiveness can be broken down into three categories:

(1) those that can't be changed (eg., domestic population; cold temperature; distance of markets)

(2) those that management can influence indirectly (eg., government tax policies; labour relations legislation; union attitudes)

(3) those that management controls (eg., organization; marketing; R& D spending).

The first two categories obviously pose real difficulties for Canadian management, and the CMA continues to work vigorously to influence those in the second category. But explaining our difficulties solely by the first two categories can lead to inaction on the third front. This paper concentrates on the third category and focuses on four critical areas under direct management control: marketing, technology, finance, and human resources.

A Management Problem

Many manufacturers may believe that factors such as government policies and union attitudes will so limit management initiatives so as to make them only of marginal use. But the thesis of this paper is that what is within management's control-- improving its own performance--provides a very real opportunity to very significantly improve competitiveness. Certainly, management must accept this challenge and in so doing may provide leadership that will help it influence the community, governments, and unions to new courses of action that will remove constraints on manufacturers. If so, the self-help initiatives this paper suggests are necessary will be easier to implement.

In suggesting these self-help initiatives this paper first analyzes fundamental changes that have taken place and outmoded ways of doing business that were once highly successful. It suggests responses to these changes that are already being followed by many enterprises but that must now be explored by the whole manufacturing sector.

Each chapter touches on the question of management staffing. The overall conclusion is that if we utilize our human resources properly, less middle management is probably required. But senior management must recognize there is a new ball-game requiring new responses. The suggested responses are, of necessity, general and must be applied by each company in the context of its own needs.

Marketing Management

Key Trends:

Internationalization of Trade

There is a trend towards increased export orientation and this is expected to continue.

> In 1966 exports accounted for 19 per cent of Canadian domestic production, by 1981 exports were 31 per cent. The ongoing GATT multilateral tariff reductions are increasing access to global markets, encouraging this trend.
>
> By 1988, 80 per cent of Canadian exports to the United States, our largest foreign market, will be on a duty-free basis, and almost 95 per cent will be assessed duties of 5 per cent or less. The tariff on dutiable exports will fall to an average of 4 per cent. This example can be extended to Japan, Western Europe and elsewhere.

There is a trend towards increased import penetration and this, too, is expected to continue.

> In 1966 imports accounted for 21 per cent of the manufactured goods sold in Canada yet by 1982 imports had grown to account for 33 per cent of total sales. As a GATT signatory Canada has agreed to open its markets even further.
>
> Consider again the United States. By 1988 almost 50 per cent of the manufactured goods currently imported from the United States will enter duty- free and the average tariff on dutiable items will fall to 8½ per cent. Similar tariff reductions will apply to imports from Japan, Western Europe and elsewhere.

It is true that in the current severe recession there is a tendency to erect non-tariff barriers, but the long-term trend towards a globally integrated economy is unmistakable. This internationalization of trade (more imports and more exports) means that a firm's most important competitor in the 1980s may not be the company on the other side of town, but a firm located across the border or perhaps across the ocean. To be competitive now means to be internationally competitive.

Canada Now:

Historical Development

Canadian manufacturers are often not internationally competitive. The EMF ranks Canada last both in average annual growth of foreign trade, and in exports to new markets as a per cent of total exports. This general lack of international competitiveness is because historically many Canadian companies have manufactured for the small Canadian market behind protected tariff barriers without sufficiently developing international scale economies.

Small Market

Canada is in a unique position as the only major industrialized nation with a domestic market of less than 120 million. The domestic market in Canada is one-fifth the size of the concentrated Japanese market, one-tenth the size of the U.S. market and one-tenth the size of the European Common Market. In fact, even Canada's small domestic market is being further fragmented by local preferences and government procurement policies.

Export Sales

Those many Canadian manufacturers who anticipate expansion and increased production as tariff barriers are reduced, are often those firms who are already active in the U.S. and overseas markets.

CHART 4
NET IMPACT OF CANADA—U.S. FREE TRADE

	Export as % of sales			
	None	1-19	20-49	50+
Expansion	20.7%	31.3%	39.0%	43.9%
Contraction	39.3%	35.5%	25.3%	10.8%
No Change	40.0%	33.2%	35.7%	45.2%
No. of Responses	183	476	154	148

Source: Survey of CMA Members and CMA Economics Department.

Exports and Employment

The strong correlation between employment growth and increased exports shows that expansion into foreign markets will be an engine of future growth.

CHART 5
MANUFACTURERS' EXPORT AND EMPLOYMENT GROWTH, BY INDUSTRY, 1973-1981

	Ave. Annual Growth in the Volume of Exports 1973-1981 (%)	Total Employment Growth 1973-1981 (%)
Chemical products	54	26
Petroleum refineries	34	4
Plastics and rubber	27	20
Furniture and fixtures	20	11
Machinery and equipment	19	45
Metal fabricating	18	11
Electrical products	17	1
Textile industries	14	-16
Non-metallic minerals	13	3
Shoes and leather products	11	14
Food and beverages	11	7
Tobacco products	11	-36
Lumber and wood industries	10	11
Steel and primary metals	9	18
Newsprint, pulp and paper	9	13
Transportation equipment	9	1
Clothing industries	8	7
Knitting mills	-2	-16
Total Manufacturing	11	11

Source: Statistics Canada, Department of Industry, Trade and Commerce and CMA Economics Department

CMA Survey

A CMA survey on attitudes of members towards Canada-U.S. free trade shows that those Canadian firms that have expanded significantly beyond the domestic market would do significantly better in a free trade environment. (See Chart 4.) Companies that export are more likely to be internationally competitive because they have to be. This is reinforced by Chart 5 which shows, across industrialized sectors, a positive correlation between export growth and employment growth.

Objective—Exporting to Become Internationally Competitive:

A General Need

Most Canadian firms will have to be internationally competitive and for most this will mean selling abroad. Achieving economies of scale that exporting makes possible will be the key. Furthermore, the exposure gained in export markets will be a valuable guide to the type of competition to expect at home as import penetration grows.

Exceptions?

Of course, transportation costs, advantages of domestic sources of raw materials, local preferences, unique technology, superior performance and other factors may sufficiently offset scale and market share disadvantages so that some Canadian manufacturers can remain competitive at home without the need to turn to world markets and increased economies of scale. But even these companies would benefit by the improved economies of scale which exporting would make possible. And these benefits are likely to be needed by more and more companies because the import competition witnessed up to 1982 is only the leading edge of competitive pressures that will grow throughout the 1980s and beyond.

Suppliers to Exporting Companies

The need to be internationally competitive is particularly important to small manufacturers supplying larger companies that produce finished products for the export market. Unless these supplier companies are internationally competitive, their customers are likely to turn to foreign sourcing in order to stay competitive in their markets.

Achieving the Objective:

1. Pursuing New Opportunities:

Canadian manufacturers need to be increasingly alert to newly developing market opportunities and more aggressive in pursuing them. The problem seems to be more in new markets (which are those growing most rapidly) than in traditional ones. When the EMF assessed cumulative growth of exports of a broad range of foreign markets (Western Europe, U.S.A., Japan, the Eastern Block, OPEC countries, and non-oil developing countries) Canada ranked ninth. By contrast, in comparing exports to new markets (OPEC countries, non-oil developing countries, the Eastern Block) the EMF ranked Canada twentieth.

There are basic reasons of attitude and expertise why many Canadian manufacturers do not seize newly developing market opportunities. EMF shows Canadian producers as unwilling to modify products to sell in foreign markets (ranking seventeenth of twenty-one) and manufacturers as unwilling to accept foreign postings or to learn foreign languages (ranking sixteenth of twenty-one in both). Moreover, Canadian engineering consultants who have been very successful in getting contracts all over the globe continue to complain of a reluctance by Canadian manufacturers to grab the export opportunities afforded by these projects. Many Canadian manufacturers also lack the specialized expertise necessary to sell successfully abroad. Both problems, one of attitude and the other lack of expertise, indicate a need for specific remedial training programs.

2. **Economies of Scale—Specialization and Size:**

Economies of scale improve the productivity and competitive position of Canadian firms. For example, although higher in a few industries, output per man-hour in Canadian industries is on average 15-20 per cent lower, and unit production costs are higher, than in the United States. This is due, at least in part, to greater economies of scale in the United States. Where globally competitive facilities necessitate large scale operations, it may be difficult for Canadian plants to be globally competitive across the wide range of products produced in the large U.S. manufacturing plants. In these cases, increased competitiveness from economies of scale can be derived from greater specialization of manufacturing facilities. In the case of foreign owned companies this specialization strategy is referred to as world product mandating.

3. **Inventories:**

Japanese national inventory levels are 40 per cent those of other industrialized countries. The Japanese "kanban" system of just in-time delivery of components leads to their low inventories. It is growing in popularity with North American car makers and may be adapted to other industries. For smaller Canadian manufacturers who supply the larger firms using the "kanban" system, their marketing efforts must emphasize product quality , rapid turn over and prompt delivery. The Japanese have tended to favour suppliers working within a thirty mile radius, but in North America, buyers will have to rely on more distant suppliers until the system and economic structure have had an opportunity to mature.

4. **Exchange Rates:**

Over the years, a mystique seems to have arisen about the relationship between the Canadian and U.S. currency. In some instances Canadian manufacturers may have decided against investments in Canada because they have been assuming that the Canadian and U.S. dollars will return to parity, thereby cancelling what is seen as a temporary Canadian trade advantage. But Canadian trade advantage does not depend on the value of the Canadian dollar. In fact the exchange rate is only an equilibrating mechanism. The Canadian dollar has declined by roughly 20 per cent since the mid-1970s but only to offset the greater rate of increase in Canadian prices and costs by about the same amount. Its value will only increase if Canadian inflation and productivity performance improve correspondingly, in which case, a stronger currency will not be a problem.

Technology Management

Key Trends:

For industrial countries, comparative trade advantage increasingly means doing things smarter and using sophisticated technology. This is not a secure advantage. Expertise and technology cannot be contained within national boundaries and they rapidly evolve to render yesterday's advantages obsolete. To keep a step ahead of their competitors, industrialists must pay continuous attention to improving their technology management. For companies where managers understand this, technology will provide the key to an effective competitive advantage.

Canada Now:

Position of Canadian Manufacturers

A number of proxies indicate that Canadian Industry lags behind its international competitors in using technology as a competitive weapon. The proportionately low use in Canada of robotics is one. Japan has 14,000 programmable robots in operation; the United States 4,100; West Germany 2,300; France 1,000; Sweden 600; Britain 500; and Canada only 200. After evaluating seventeen criteria to measure comparative use of expertise and technology, the EMF ranked Canada thirteenth of twenty-one. Taking two specific criteria as examples, Canada ranked seventeenth in the proportion of national R&D expenditures undertaken by industry and fourteenth in R&D expenditures as a percentage of Gross Domestic Product.

Reasons for Present Position

While Canada's emphasis on technology management is relatively low, the question is whether it is appropriate for our likely future. If comparisons to Australia are more valid than to the United States or Germany or Japan —Canada ranks well. Moreover, Canadian industry's access to foreign technology is better than in most countries because of our many subsidiaries of foreign-owned companies. It is also agreed that many of our industries are mature and resource-based, and technology, although important, may not require as high an expenditure for these industries to remain competitive as in more "high tech" industries. Finally, there is only now emerging in Canada a national consensus that technology investment is a key to tomorrow's jobs and international competitiveness.

Proof of Technology Importance

The importance of technology management can be seen by looking at R&D investment as a proxy. U.S. studies sponsored by General Electric (and also confirmed in Canada) have shown that R&D intensive industries, compared with those that spend little on R&D, have almost triple the growth rate, twice the productivity growth, significantly greater employment growth and substantially less inflation in prices.

Need for Change

Newly industrialized countries (NICs) with their low wages, easy access to technology and descending tariff barriers are becoming formidable competitors in manufacturing and resource sectors that have been areas of Canadian strength. NICs are affecting all developed countries and forcing them to shift into more knowledge-intensive industries and/or to make more effective use of technology to remain competitive in mature and resource industries. If Canadian industries do not advance their use of technology they will be left behind.

Objective—Using Technology as a Competitive Weapon:

Management must change to make better use of technology as a competitive weapon. This will require increased emphasis by the private sector on technology management and investment. It will also require governments to match the support given private sector technology investment in other countries (as shown by Chart 6).

> **Column 1 shows the comparatively low priority the Canadian Government gives to supporting R&D performed in industry. In allocating Government R&D expenditures between R&D performed in government, universities, and industries, only 26 per cent is allocated to industry.**
>
> **Column 2 shows the burden Canadian industry faces in financing its own R&D. For every dollar spent, Government provides twenty-five cents.**

Government R&D Support

Government R&D support in Canada has mainly been flowing to universities and government labs, not to industrial research like in most other countries.

CHART 6
GOVERNMENT RESEARCH AND DEVELOPMENT SUPPORT, SELECTED COUNTRIES, 1979

	% of Gov. R&D Funds Spent to Support R&D Performed in Industry	% of R&D Performed in Industry that is Funded by Gov.
Canada	26%	25%
United States	45%	33%
United Kingdom	46%	29%
France	35%	22%
Norway	35%	24%

Source: OECD, Statistics Canada and CMA Technology Department

Note: Canadian measures include both grants and tax incentives, whereas data for other countries includes grants only.

Chart 6 probably understates the low level of support provided by the Canadian Government. The Canadian figures show both grants and tax incentives for R&D, whereas only information on grants is available for the other countries. If tax incentives were excluded from the Canadian figures, the support level for Canada drops to nine per cent in both columns 1 and 2.

Achieving the Objective:

Evidence that Canadian industry increasingly recognizes the need to emphasize technology as a competitive weapon is provided by the recent substantial increase in industrial R&D spending: 21 percent in 1981, and 22 percent in 1982, despite the recession. Continuing this commitment to technology will mean emphasizing technology management. Although solutions will differ from sector to sector and company to company, improving technology management in Canadian industry will generally require the following:

1. **Investment:**

   Chief Executive Officers need to recognize the necessity of investing more in technology, both modern equipment (today's technology) and R&D (tomorrow's technology). Future economic success depends on these investments being made despite today's high interest rates and lack of confidence in future market conditions and the economic climate. This means thinking more in terms of long-term pay-offs and less in terms of the next quarter's results even though this may be constrained by shareholder attitudes and compensation/promotion systems that favour choosing short-term returns.

2. **Redesigning Management Systems:**

   Management systems need to tie technology into the business plan. Technology must be linked to production and marketing needs. More top management with technical orientation will help. So too will more emphasis on communications between researchers, marketing and production management.

3. **Doing things smarter:**

   Doing things smarter does not usually require significant capital investment. For example, industrial energy management programs often require limited capital investment and achieve substantial cost savings by more efficient use of energy.

   Use of statistical control of quality to take the guess-work out of failures on the production line is another example. This approach was pioneered by an American Statistician, Dr. Deming and adopted extensively in Japan. It reveals that up to 85 per cent of production problems are usually caused by poor design of the production system by managers. In companies where this applies, management's acceptance of this startling fact will, in itself, lead to significant opportunities for improving productivity and quality. The corrective action required will depend on the company. But the statistical control of quality approach will enable management to pinpoint the problems so that informed decisions can be made about corrective action.

4. **Employee Acceptance of Technology:**

   Employees need to accept that they have a stake in the company using new technology and to accept responsibility for doing things smarter. This will often require convincing unions to accept the need to improve productivity. Providing greater job responsibility, sharing benefits of increased productivity and improved quality, and retraining displaced employees will help achieve this and will also usefully cement the bond between the company and the employee. These changes are generally required to improve human resources management and are discussed in more detail in that section of this paper.

Financial Management

Key Trends:

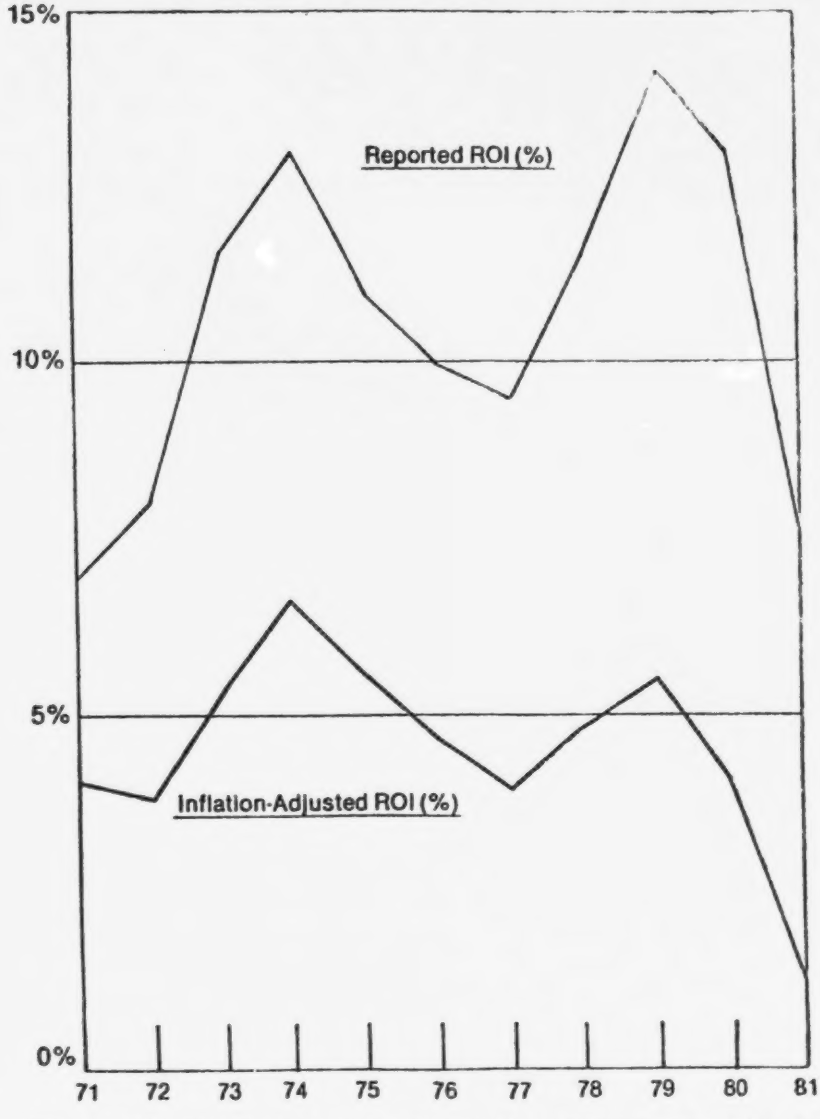
Interest Rates

The cost of debt financing has increased dramatically since 1981 and is expected to remain high throughout the 1980s. Strong public and private demand for new financing and the limited availability of funds appears to ensure that prime interest rates will remain well above the rate of inflation (perhaps by 4 percentage points) for the foreseeable future. In contrast a 2½ per cent spread between interest and inflation rates was common through most of the post-war period.

Inflation and Profits

Reported earnings have been seriously distorted by inflation, masking the decline in real profits that extends back to 1974.

CHART 7
MANUFACTURERS' RETURN ON
TOTAL CAPITAL EMPLOYED,
REPORTED AND INFLATION-ADJUSTED ROI



Source: D.C. MacCharles, D.J. Daly and W. Altwasser, and CMA Economics Department

Competition for Capital

Even at the higher cost, new funds for industrial investment have become much more scarce and will remain in limited supply for many years. Ballooning government deficits, The National Energy Program, The Foreign Investment Review Agency, the remaining major investment projects and the financial difficulties confronting the larger lending institutions, all indicate that new funds will remain scarce in the foreseeable future.

Inflation Impact

As for internally generated funds, manufacturers' reported earnings have been seriously distorted by the increasing inflation of the 1970s and early 1980s. Real returns have generally been declining for the last decade (as shown in Chart 7) once adjustment is made for the reduced value of inventories and increased replacement cost of operating assets. Real rates of return have been very low since 1976 with an alarming drop in the early 1980s. Several firms and indeed some entire industries have earned no real profit in the last two years.

Taxation

The effective tax on Canadian industry has never been greater than today and the current large government deficits imply the tax burden will continue to increase in the current decade. Furthermore, the federal/provincial/local tax legislation has become extremely complex.

Canada Now:

Liquidity Crisis

Although borrowing costs have increased sharply over the last two years the total debt carried by many manufacturers has not been reduced, indeed it has increased! This growing debt and its affiliated interest cost has contributed to the current "liquidity crisis" in Canadian industry. The business failure rate is almost triple that plaguing the United States partially because current sales are not strong enough to support existing debt loads for many manufacturers.

Capital Outflows

Capital is highly mobile with new investment always flowing to countries that attract it by offering the best environment in terms of rate of return, political stability and lowest risk. In recent years, The Foreign Investment Review Agency, The National Energy Plan and a variety of other factors have combined to reduce capital flows into Canada and to increase outflows of Canadian investment. Canada's traditional foreign investment inflow was reversed in 1981 with the $10.2 billion outflow of capital including a $5.3 billion reduction in foreign direct investment in Canada and a $4.9 billion outflow of Canadian direct investment.

No Inflation Adjustments

Fewer than one firm in twenty listed on the Toronto Stock Exchange reports financial data which has been adjusted for the effects of inflation. Indeed it would appear that the majority of Canadian manufacturers plan, function and operate using financial reporting systems that are not adjusted for inflation.

Taxation

The most recent federal and provincial budgets generally increased both corporate taxes and the size of the budget deficits. The large government deficits indicate that future tax increases must be expected.

Objective—Substantial Improvement in Real Return on Investment

Canadian manufacturers must achieve a substantial improvement in their real return on investment in order to attract funds for future growth.

Achieving the Objective:

1. **Increasing Equity/Reducing Debt:**

   High levels of equity financing are imperative for sound financial management because they reduce vulnerability to wide swings in interest rates and provide greater stability not only for companies but for the economy as a whole. For manufacturers total borrowing must be reduced urgently and equity levels increased if they are to survive the immediate cash squeeze to remain solvent in today's new environment of costly debt financing.

2. **Attracting Investment:**

   Although Canada's tremendous economic potential, rich endowment in natural resources and proximity to the large U.S. market will always attract new capital, industry will have to work much harder in the 1980s than at any time in the last twenty or thirty years to entice new investment. Recently, some firms have evolved imaginative new stock issues, while others have begun borrowing in foreign markets or from the new foreign banks in Canada. Many new financing schemes, including leasing, are likely to evolve as manufacturers compete to attract needed capital.

3. **Inflation-Adjusted Accounting:**

   There is an urgent and immediate need for manufacturers, particularly small companies, to evolve reporting systems that provide a measure of real income flows if they are to develop informed decisions in the inflationary environment of the 1980s. Those unable to monitor real changes may not only be unable to expand but may be eroding their existing assets.

4. **Tax Management:**

   As corporate tax rates continue to rise and the tax legislation grows more complex then, in tandem, the importance of the firm's tax department also increases. Effective tax management will have significant impact on profits and competitiveness.

Human Resources Management

Key Trends:

More and more, routine work is being done by machine and by competitors operating in low cost countries. Our "people work" increasingly is becoming non-routine requiring more analytical skills. Meeting skills requirements through immigration has already become difficult and will become more so as fewer countries are shedding fewer skilled people. Most of labour force growth in the 1980s will come from women and this will apply to many occupational areas which have been traditionally male. New attitudes and values affecting how people work have created a need for a new management style and organization.

Canada Now:

Potential

The EMF ranks Canada fifth in human resources contributing to international competitiveness (education levels, health, and size and growth of the labour force). We ranked even better in education (e.g. second in per cent of students enrolled in higher education and first in public expenditures on education as a per cent of total public expenditures) which will be increasingly important as technological change affects how we work and what we work at. In other words, people should be one of our strengths.

Contribution to Competitiveness

But if we focus on criteria of industrial efficiency, our human resources do not seem to provide us with a competitive edge in the race for international competitiveness.

Some disturbing indicators include:

- a lack of essential skills so that despite high unemployment levels jobs go unfilled.
- our strike record is the second worst, behind only Italy. Between 1971 and 1980 Canada lost an average of 1,774 working days per year per 1,000 employees (in mining, manufacturing, construction and transportation industries).
- absenteeism is a significant problem in Canada. In the EMF rankings, twelve of the twenty-one countries had lower levels of absenteeism than Canada.
- in motivation of our labour force, Canada is ranked nineteenth by the EMF, better than only New Zealand and England.

The Human Resources Productivity Problem

These factors strongly indicate that a significant part of the productivity problem, defined in terms of output per man hour in charts 2 and 3 above, is, in fact, a human resources productivity problem.

While government policies and union attitudes are, undoubtedly, significant factors, the human resources productivity problem would seem to be primarily one of management. Statistical analysis by Dr. Deming (the American who taught the Japanese statistical control of quality) supports this conclusion as it points out that normally about 85 per cent of problems in any operation can be directly traced to the system management has designed–to common problems that affect a whole group of workers and can only be fixed by management. James O'Toole , author of "Making America Work", explains that a major contributing factor to poor international competitiveness in North America is the work environment which, by management design, does not provoke or permit workers to contribute their potential.

Labour Costs

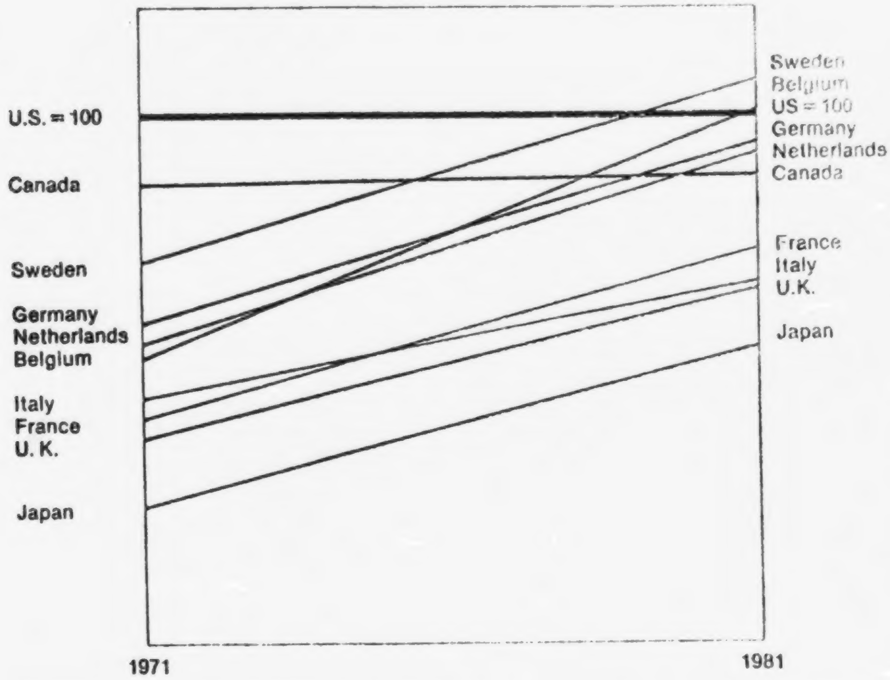
It is also worth noting with regard to Canada's labour force that the usual arguments about Canada's high cost of labour no longer have as much validity as before when we are examining our overall competitiveness. It is true that Canadian wages are still among the highest in the world, and that rapid wage and salary increases pose a real problem in terms of our domestic rate of inflation. But (as shown in Chart 8) disadvantages strictly in terms of our high cost of labour are diminishing rapidly (or have already disappeared) in comparison with most of our industrialized trading partners.

Labour Costs

Disadvantages in Canada's high labour costs have been disappearing in comparison with most of Canada's industrialized trading partners.

CHART 8
HOURLY COMPENSATION FOR MANUFACTURING PRODUCTION WORKERS

INDEX, UNITED STATES = 100



Source: United States Department of Labor and CMA Economics Department.

Objectives—Major Reorientation in Management Thinking:

Our highly educated labour force is not providing Canada with the significant comparative advantages that it should. Management, therefore, must creatively deal with the diverse, new attitudes of today's workers in order to increase the contribution workers make to improving productivity.

Achieving the Objective:

1. Recognize the Diverse Values of Workers:

One writer has said "the failure of scholars, managers, and union leaders to recognize that worker values are diverse and changing is at the heart of the inappropriate philosophy and organization of work prevalent in America today--and at the core of the problem of declining productivity." (Making America Work by James O'Toole, p. 5).

Managers must find ways to build on the positive aspects of the new diversity in work values. For example, old employees are more likely to emphasize security and respect for seniority. Younger workers, on the other hand, will emphasize flexibility in working conditions, participation in decision-making, and more leisure. Of increasing importance will be provisions to enable working couples to have children without sacrificing jobs. Managers must ensure that the organization and environment of the workplace are shaped by the nature of the changes that are occurring in the family, in education and in attitudes.

2. Communications:

The new worker, with higher education and new work values, is more likely to be interested in how his job and the company's performance are tied together. By providing such information management can clarify this interdependence and once it is understood, commitment performance and productivity should improve.

Good communications will be two way since employees that have been informed how their jobs relate to the company's success will have reason to offer useful ideas on how the company performance can improve. But management must be receptive, demonstrate sincerity, and provide feedback. Resources as well as an open mind will be required.

3. Restructured Decision Making:

Decisions should be made at the level closest to the action being undertaken because productivity problems can often be assessed best by the employees involved, particularly if management provides appropriate technical support. Such restructured decision-making will be a natural result of improving two way communications and employee commitment to the company, but it can and should also be actively encouraged by management reorganization. Eliminating layers of middle management that prove to be unnecessary as employees assume increased responsibility will not only remove bureaucratic hurdles to restructured decision-making, but will achieve substantial cost savings as well.

4. The New Manager:

Improving communications, restructuring decision-making and managing workers more effectively will require new management attitudes. Management may need to be specifically trained to accept a new role of providing more support and less supervision and to abandon the belief that to do a job effectively it must be done strictly according to instructions. Authoritarian management is not in tune with the values of today's work force, which emphasizes diversity, flexibility and choice. The new manager must be much more a facilitator, tapping worker skills, and less of a task master, over-seein the job to be done.

5. **Changing Variable Cost Priorities:**

Companies historically have often looked first at reducing labour when problems occur, perhaps because labour costs are a significant but flexible part of production costs. But if the comparative advantag of our human resources is to be realized, labour reductions should no longer be looked on as the easiest cost reduction. This may require a fundamental change in management attitudes--but such a change is essential if labour is to see that its success is tied to the company's.

6. **Better Treatment of Dislocated Employees:**

Although lifetime employment is unrealistic given the Canadian tradition of labour mobility, lay-offs must be a last resort after retraining and relocation options are exhausted.

When lay-offs are inevitable assistance to employees such as early retirement, severance pay and assistance in finding other jobs should be offered when practical.

7. **Sharing Performance Improvement:**

The decision as to how productivity improvements should be shared involves balancing the interests of employees, customers and shareholders.

Employee commitment to the job and the company will be assisted by employees sharing in performance improvements. In fact, this is likely essential. This could include better job security, improved employee benefits, working conditions or leisure time, higher direct pay or perhaps a mix that could be designed in consultation with employees. This is important because different employees have different values.

Passing part of gains on to customers means declining prices that should result in increasing market share and company growth and, in future, provide stockholders with a stronger company and employees with improved job security. Our tradition of labour mobility may make trading off increased compensation now for increased job security later less attractive to employees. But this is less likely if the company adopts an overall policy of increasing company and employee ties and commitments.

Sharing productivity gains with employees, either long-term by reducing costs to customers (and thereby improving job security) or short-term by improving working conditions or compensation, also means convincing shareholders to take a longer rather than a shorter perspective on their return on investment. The trade-off, here, is between improved dividends now versus future appreciated capital gains resulting from a stronger company.

Of course, where productivity is currently very low, it may be necessary to delay passing on productivity improvements. This will depend on the company's competitive position and should be discussed with employees.

8. **Employee Training and Development:**

Employers plan carefully and intensively for physical resources, but few undertake as thoroughly the important task of planning for human resources requirements. Present operations need to be compared with future plans to assess skills shortages and what training will be required. These plans must take into account the growing proportion of women in the labour force and possibilities of retraining and relocation as a way to avoid lay-offs whether due to technological change or other causes.

Women increasingly are doing jobs that have been traditionally done by men. This may require eliminating unnecessary qualifications that are now attached to various jobs and disqualify women. Redesigning training programs may also be required. With proper training programs women will be able to fill more of the shortages likely to result from decreases in skilled immigrants.

Retraining to avoid lay-offs and to accommodate technological change will be a major social challenge because technology, while eliminating less-skilled jobs, also creates the need for more-skilled jobs. Proper management planning can only address part of this emerging, major social problem and other institutions, such as universities, governments and unions, also have key roles to play.

9. **Working with the Union:**

To implement the measures outlined above companies with unionized employees must convince the unions that these measures will lead to improved labour relations. Whether the company works through the unions, or directly with its employees, (keeping the unions informed), will depend on the relationships between the company, union and employees.

Conclusion

So where does all this soul-searching leave us? Even if one were to agree with the ideas expressed in this paper, where does one start to implement them? What comes first? Where does one get practical help to implement these ideas?

It would be simplistic to sugggest that there are easy, ready-made answers to these questions. What is crystal clear however is that the fundamental challenge of "Competing in the Global Village" is real and urgent.

In meeting this challenge, there is no question that there are some real limitations in Canada's socio-economic environment in terms of government policies, union attitudes, size of market, etc., ... Accordingly, improving Canada's overall competitive position is necessarily a collective responsibility. But someone must take the leadership in breaking the vicious circle.

From the analysis presented it is evident that a large element of the solution can only be the responsibility of managers. Aggressively pursuing new markets; creating the new organizational structures and the motivation to release fully the energies of our people; identifying and utilizing new technology throughout the enterprise; developing more effective financial management that penetrates the illusions created by inflation; these are all key management functions.

Canada desperately needs the entrepreneurs and innovators among its management ranks to tackle these problems head on. Each company must make its own strategic assessment of its strengths and weaknesses and find its own distinctive solutions within the Canadian context. And this applies whether a company is Canadian or foreign-controlled because the objective of improved performance in the Canadian environment is the same.

If this paper has stimulated new ideas and created an awareness of the urgent needs to re-examine current management philosophy and perhaps do things differently, it will have achieved its objective.

Look again at the title--it says it all. We have to compete internationally in order to be internationally competitive. We have to test our skills as marketers, scientists, motivators and managers against the best the world has to offer. It's the only real test and it's one that Canadian management must face itself.

CMA's firm commitment is that in the months and years ahead, through questionnaires, surveys, workshops, research studies (whatever it takes),the Association will do its utmost to help manufacturers meet the challenge of Competing in the Global Village.

Appendix

Factors used in the EMF Competitiveness Scoreboard (Chart 1):

Dynamism of the economy: This factor evaluates the dynamism of the macro-economic environment. This is achieved by considering the size and structure of Gross Domestic Product (GDP), the growth rates of the various components of GDP and the output of key sectors producing intermediate goods for the manufacturing sector. Per-capita measures are generally used so as not to overprivilege the large economies. To the extent that size itself can confer competitive advantages, a few criteria based on measures of absolute size are included.

Industrial efficacy and costs of production: Costs of production are determined by the costs of the productive resources that industry draws upon, their quality and the efficiency with which they are used. This Factor looks mainly at four inputs: labour, capital equipment, raw materials and energy.

Dynamics of the market: This Factor takes into account the quality of marketing techniques, ownership levels, exposure to foreign competition and the rules of competition.

Financial Dynamism: Financial dynamism is assessed in terms of the ease with which funds might be secured for investment projects, the adaptability of the financial institutions to the specific needs of industry, and monetary policy.

Human resources: This Factor is assessed in terms of each country's demographic characteristics, the size and growth of the labour force, education levels, health and the degree to which managers and workers are motivated to carry out their duties efficiently and imaginatively.

Role of the State: The State influences competitiveness in a number of ways: through the regulations it imposes on industry, through competing with the private sector for scarce resources, through nationalizing and controlling large sectors of industry and through its fiscal and monetary policies. This Factor concentrates on the negative aspects of the State's role.

Infrastructure: This factor looks at the traditional areas of transport and communications and also encompasses endowments in natural resources, notably energy, and government support for overseas raw-material procurement. Patterns of energy consumption are also taken into account.

Outward orientation: This Factor is assessed in terms of the magnitude and composition of trade and investment flows and the extent to which companies are prepared or encouraged to enter into cross-border ties.

(over)

Forward orientation: This Factor considers the volume and patterns of research and development expenditure, the attitudes of companies towards exploiting inventions, the innovative drive of companies and the contributions that the State might make to fostering innovation.

Socio-political consensus and stability: Many factors influence socio-political consensus and stability: material well-being, the extent to whi individuals feel their views are represented in government and at work, confidence in the administration of justice and satisfaction with life in general.

SCHEDULE I

SUBMISSION PRESENTED TO:

THE ONTARIO HIGHWAY TRANSPORT BOARD
TORONTO, ONTARIO

BY

THE CANADIAN INDUSTRIAL TRAFFIC LEAGUE
(ONTARIO DIVISION)

MAY 26, 1983

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THE ONTARIO DIVISION OF THE CANADIAN INDUSTRIAL TRAFFIC LEAGUE IS THE PROVINCIAL ARM OF A NATIONAL ASSOCIATION OF SOME 600 TRANSPORTATION PROFESSIONALS REPRESENTING 260 INDUSTRIAL AND COMMERCIAL FIRMS IN ONTARIO. THESE FIRMS ARE THE PURCHASERS OF TRANSPORTATION AND PHYSICAL DISTRIBUTION ON A LOCAL, REGIONAL, NATIONAL AND INTERNATIONAL BASIS IN QUANTITIES COVERING THE SMALLEST OF SHIPMENTS TO TRUCKLOAD, TRAINLOAD AND SHIPLOAD SIZE. ON AN ON-GOING BASIS OUR MEMBERS ARE POLLED ON TRANSPORTATION MATTERS OF SIGNIFICANT IMPORTANCE, IN ORDER THAT WE MAY IN TURN DEVELOP AN ONTARIO POSITION.

THE ONTARIO DIVISION OF THE CANADIAN INDUSTRIAL TRAFFIC LEAGUE HAS WORKED DILIGENTLY TO ASSIST IN THE DEVELOPMENT OF A MORE EFFICIENT AND ECONOMICAL MOTOR CARRIER TRANSPORTATION SYSTEM IN OUR PROVINCE. IN PARTICULAR, AS INTERNATIONAL TRADE FORMS SUCH A SIGNIFICANT PORTION OF THE ONTARIO ECONOMY, WE RECOGNIZE THE PROBLEMS THAT EXIST DUE TO THE MULTI-JURISDICTIONAL ENVIRONMENT, AND OUR COMMENTS WILL BE DIRECTED IN THIS CONTEXT.

SERVICE:

> THE ONTARIO DIVISION OF THE CANADIAN INDUSTRIAL TRAFFIC LEAGUE SPONSORS A SYSTEM THAT WOULD NOT ONLY MAINTAIN SERVICE EQUAL TO THE EXISTING LEVEL BETWEEN BOTH LARGE AND SMALL COMMUNITIES, BUT ALSO MAJOR TRAFFIC LANES. BY SERVICE, WE IMPLY ALL ASPECTS OF THE COMPLETE SERVICE CYCLE. SURVEYS OF OUR MEMBERSHIP HAS CONSISTANTLY INDICATED THEIR CONCERN THAT THE COST FOR CONTINUANCE OF THIS SERVICE TO THE SMALL COMMUNITIES REMAINS COMPETITIVE.

COST:

SHIPPERS AND RECEIVERS OF GOODS IN THE PROVINCE OF ONTARIO ARE INTERESTED IN OBTAINING THE LOWEST POSSIBLE COST FOR THEIR MOTOR CARRIER TRANSPORTATION, CONSISTENT WITH THEIR DESIRED LEVEL OF SERVICE, BOTH IN THE LONG AND SHORT RUN. SINGLE LINE OPERATING COSTS TO A CARRIER, SHOULD PRODUCE A LOWER OVER ALL COST THAN THAT OF ONE OR MORE CARRIERS PERFORMING THE SAME SERVICE, OVER THE SAME ROUTE. USING THIS PHILOSOPHY, IT WOULD SEEM REASONABLE TO ASSUME THAT A LOWER FREIGHT RATE FOR TRANSPORTATION SHOULD BE OBTAINED, BY ROUTING TRAFFIC VIA ONE CARRIER, INSTEAD OF USING TWO OR MORE. THIS HOWEVER IS NOT ALWAYS TRUE (AS INDICATED IN THE FOLLOWING TOPIC - "FREIGHT RATES").

FREIGHT RATES:

FREIGHT RATES ARE THE PRODUCT OF OPERATING COSTS, OVERHEAD AND PROFIT. A SINGLE LINE OPERATION MAY NOT NECESSARILY RESULT IN A LOWER FREIGHT RATE. BASED ON A RECENT COMPARISON OF CERTAIN TRAFFIC MOVING FROM THE SOUTH EASTERN STATES TO TORONTO, A "COMBINATION" OF RATES WAS ACTUALLY 25% LOWER THAN THE "SINGLE LINE". THIS WOULD TEND TO DEFEAT THE THEORY THAT A SINGLE LINE MOVEMENT AUTOMATICALLY MEANS A LOWER FREIGHT RATE.

TARIFF BUREAUX:

THE CANADIAN INDUSTRIAL TRAFFIC LEAGUE HAS BEEN ON RECORD FOR SOME TIME OF SUPPORTING THE ACTIVITIES OF TARIFF BUREAUX, BUT BASED ON CERTAIN

CONDITIONS. I AM SURE YOU ARE AWARE OF THESE CONDITIONS. SINCE DEREGULATION OF THE MOTOR CARRIER INDUSTRY IN THE UNITED STATES, MANY DISCOUNT TARIFFS HAVE BECOME A REALITY. MANY OF THESE ARE BEING FILED ALMOST DAILY AND WHILE THEY WOULD TEND TO BENEFIT CERTAIN SHIPPERS, WE ARE CONCERNED THAT SHOULD OUR BORDERS BE THROWN OPEN TO U.S. TRUCKERS, THERE COULD BE SUCH A BROAD PROLIFERATION OF FREIGHT RATES AND TARIFFS, THAT ONLY THE MOST SOPHISTICATED ONTARIO SHIPPER OR RECEIVER OF GOODS, WOULD HAVE THE EXPERTISE TO ACCESS THE OPTIMAL FREIGHT RATE.

SAFETY CONCERNS:

THE LEAGUE HAS FOR A NUMBER OF YEARS, PROPOSED A HIGHER LEVEL OF SAFETY STANDARDS FOR THE MOTOR CARRIER INDUSTRY IN ONTARIO. MANY NEW RECOMMENDATIONS CONTAINED IN THE UFFEN REPORT ON TRUCK SAFETY WILL NO DOUBT BE LEGISLATED AND BECOME LAW DURING THE COMING MONTHS. WE ASSUME THAT AMERICAN CARRIERS OPERATING IN THE PROVINCE OF ONTARIO WOULD BE SUBJECT TO THE SAME LAWS AS THOSE APPLICABLE TO ONTARIO MOTOR CARRIERS.

EFFECTS ON THE ONTARIO TRUCKING INDUSTRY:

THE ONTARIO DIVISION OF THE C.I.T.L. SUPPORTS A LICENSING SYSTEM WHICH PROMOTES FULL AND EQUITABLE OPPORTUNITIES FOR BOTH ONTARIO AND UNITED STATES CARRIERS AS DETAILED IN POINT (2) OF THE FIVE-POINT UNDERSTANDING REACHED BETWEEN CANADA AND THE U.S. GOVERNMENTS IN

NOVEMBER, 1982. WE WOULD HAVE CONCERNS HOWEVER, IF U.S. CARRIERS ARE GRANTED ONTARIO AUTHORITIES WITHOUT ANY COMPELLING FACTOR TO DEVELOP THE DESIRED INFRASTRUCTURE IN THE PROVINCE.

ONTARIO CARRIERS WHO HAVE A LARGE INVESTMENT IN INFRASTRUCTURE, EQUIPMENT, PERSONNEL, ETC., WOULD OBVIOUSLY BE OPERATING AT A COST DISADVANTAGE IF AMERICAN CARRIERS WERE PERMITTED TO OPERATE WITHOUT MAKING A COMPARABLE INVESTMENT FOR PEOPLE, TERMINALS, EQUIPMENT, ETC.

IF AMERICAN CARRIERS WERE TO OPERATE FROM A U.S. "HOME BASE" WITHOUT THE ONTARIO INFRASTRUCTURE, THERE WOULD OBVIOUSLY BE A REDUCED INVESTMENT IN ITEMS SUCH AS TRACTORS, TRAILERS, CONSTRUCTION OF TERMINALS AND SUNDRY EQUIPMENT AND SYSTEMS REQUIRED TO OPERATE A TRUCKING FIRM. IT SHOULD ALSO BE NOTED THAT AMERICAN EQUIPMENT AND FUEL CAN BE PURCHASED AT A LOWER COST THAN COMPARABLE CANADIAN PURCHASES.

CONCLUSIONS:

IT IS THE OPINION OF THE ONTARIO DIVISION OF THE C.I.T.L. THAT IN THE SHORT TERM, ONTARIO SHIPPERS AND RECEIVERS OF GOODS MAY BE ABLE TO ACQUIRE MATERIAL OR MERCHANDISE AT A LOWER LAID DOWN COST, OR ONTARIO EXPORTERS MAY BE ABLE TO EXPAND THEIR U.S. OR WORLD EXPORT MARKETS AS A RESULT OF LOWER FREIGHT COSTS. THE ONTARIO DIVISION HAS SOME CONCERNS HOWEVER, THAT IF THE BORDER WAS COMPLETELY OPENED TO U.S. CARRIERS, LARGE FINANCIALLY SOUND CARRIERS

COULD DOMINATE THE MARKET AND CAUSE SIGNIFICANT SHIFTS IN EXISTING TRAFFIC PATTERNS. INTERNATIONAL TRAFFIC MAY HAVE HELPED CROSS-SUBSIDIZE LOCAL ONTARIO MOVEMENTS AND SUCH A POTENTIAL SHIFT COULD IMPACT THE VIABILITY OF THESE LOCAL TRAFFIC MOVEMENTS.

WE WOULD THEREFORE URGE THAT CAUTION BE TAKEN BEFORE "OPENING" THE BORDER TO UNITED STATES MOTOR CARRIERS. UNDER CERTAIN AFOREMENTIONED CIRCUMSTANCES DETAILED IN THIS BRIEF, SUCH AMERICAN CARRIERS WOULD BE GIVEN DEFINITIVE ADVANTAGES OVER ONTARIO OPERATORS.

WE VERY MUCH APPRECIATE THIS OPPORTUNITY TO DETAIL OUR THOUGHTS ON THIS SUBJECT AND WOULD APPRECIATE THE OPPORTUNITY TO EXPAND ON THESE AT YOUR HEARING IN TORONTO ON JUNE 20.

SINCERELY,

SIGNED
BY
HUGHES

D.B. HUGHES
CHAIRMAN - ONTARIO DIVISION
CANADIAN INDUSTRIAL TRAFFIC LEAGUE

SCHEDULE J

SUBMISSION BY THE AMERICAN TRUCKING ASSOCIATIONS, INC. TO THE ONTARIO HIGHWAY TRANSPORT BOARD

RE: THE ENTRY OF UNITED STATES CARRIERS

NELSON J. COONEY
General Counsel

KENNETH E. SIEGEL
Attorney

RONALD D. ROTH
Director, Research &
Statistical Services

June 27, 1983

Comes now the American Trucking Associations, Inc. (ATA) and makes this submission to the Ontario Highway Transport Board (OHTB) in response to the Board's May 14, 1983 Public Notice announcing the initiation of an investigation and examination to determine if, as a result of the differences that exist as to transportation policies and economics between the United States of America and Canada, (1) a major shift in the balance of trade in trucking services is likely, and (2) what effect such a shift would have on the trucking industry and the service to Ontario shippers, receivers and consumers.

IDENTIFICATION AND INTEREST OF ATA

ATA is the national organization of the United States trucking industry, representing all types of motor carriers of freight. It is a non-profit corporation organized and existing under the laws of the District of Columbia, with offices at 1616 P Street, N.W., Washington, D.C. 20036.

ATA has been actively concerned with the disparity in transportation policies and laws which exist between the United States and Canada since enactment of the Motor Carrier Act of 1980, Pub. L. 96-296, STAT. 793, et seq. (July 1, 1980), and the potential imbalance in the motor carrier of property industry which can result from that disparity.

ARGUMENT

Regulation Prior To The Late 1970's

It is generally agreed that prior to the emergence and domination of the deregulation movement in the United States the regulatory policies and laws of the United States and the Canadian provinces were quite similar in nature and scope.

In general, a showing by the applicant that the proposed service was required to meet an existing public need and that the applicant was fit, willing and able to provide the proposed service was required prior to the granting of an operating rights certificate by the Interstate Commerce Commission (ICC) or by the appropriate provincial board.

The factors considered by the various licensing boards included: the need exhibited by the supporting shippers; the ability of existing carriers to meet that need; the effect of the grant on existing carriers; financial fitness of the applicant; and the operational feasibility of the proposed service. Of course each of the licensing boards interpreted and applied these factors according to their own traditions and circumstances. Generally speaking, however, the various regulatory laws were similar in nature and application.

Deregulation Moves In

In the late 1970's a majority of the members then having been appointed to the ICC, expressed a dissatisfaction with the terms of the United States' national transportation policy, the provisions of the Interstate Commerce Act, 49 U.S.C.

§10101, et seq. and the then existing rules, regulations and administrative precedents of the ICC. There followed a period of regulation, characterized by a 95+ percent operating rights grant rate, attempts at master certification of carriers, reversal or elimination of 45 years of administrative precedent and general deregulation via administrative fiat. As a result of this era of active administrative deregulation, the Congress after a lengthy period of hearings and debates enacted the Motor Carrier Act of 1980. While the 1980 Act significantly lessened the regulatory standards and structure of the motor carrier industry, it did not eliminate them. It did however ease the entry standards for motor carriers of property. The already high operating rights grant rate went even higher under the stronger deregulation tilt of the post-1980 ICC.

"Regulation" Today, The Problem, The Responses

We have now entered an era in the United States where the mere filing of an application with the ICC by an applicant for motor carrier of property operating authority is deemed by the agency as sufficient evidence that the applicant is not only fit, willing and able to provide the proposed service, but that there exists a public need for that service. Applicants for authority before the ICC need no longer show financial fitness, operational feasibility, willingness to provide the service, or supporting witnesses. Grants of authority must be broad in scope, both with respect to the territory and commodities described. Grants of nationwide (48 states) general commodity (except for household goods, bulk or class A and B explosives) authority are the norm, not the exception. Furthermore, certificates for operating authority are issued six to nine months after the application for authority has been submitted to the ICC.

By comparison, the Canadian provincial boards have retained and continue to apply the more traditional standards, described earlier, with respect to the consideration and granting of motor carrier of property applications for operating rights authority. In applications before the OHTB and other Canadian transport boards, the applicant still has the burden of coming forth with sufficient evidence to establish the need for its proposed service and its ability to provide that service. The processing of an application before a Canadian board still involves a great deal of expense and delay.

The resulting disparity in law and policy between the United States and Canada has raised the concern of the United States trucking industry. Fear, we believe a realistic fear, that the unlimited broad grants of U.S. authority to Canadian-owned or domiciled carriers will result in an unfair competitive advantage for the Canadian carrier, has been caused by this disparity. The major concern of the industry was with the disparity in laws and policies resulting from the Acts of the United States Congress, not with any alleged discrimination against United States carriers by the Canadian provincial boards.

SCHEDULE K

THE ONTARIO HIGHWAY TRANSPORT BOARD

IN THE MATTER OF The Public Commercial Vehicles Act, R.S.O. 1980, Chapter 407;

AND IN THE MATTER OF an Inquiry conducted by the Ontario Highway Transport Board at the request of The Honourable Minister of Transportation and Communications.

SUBMISSIONS MADE ON BEHALF OF ST. JOHNSBURY TRUCKING COMPANY, INC.

RECEIVED
JUL 12 1983
THE ONTARIO
WAY TR [illegible] BO

St. Johnsbury Trucking Company, Inc. is a U.S. corporation having its head office at St. Johnsbury, Vermont. It recently received a grant of authority permitting it to carry general commodities between certain named States in the United States of America and certain designated points in the Province of Ontario. This Certificate was issued May 2nd, 1983.

In an attempt to provide information of an objective nature to the Ontario Highway Transport Board and to assist them in coming to a reasoned conclusion in this matter, the writer has been engaged by St. Johnsbury Trucking Company, Inc. to correspond with the Ontario Highway Transport Board and to supply them with information relating to grants of authority to Canadian carriers in recent times.

From the period July 2nd, 1980 to July 9th, 1982, 489 applications were decided by the Interstate Commerce Commission with 154 remaining as pending. Out of the 489 which were decided, 376 were granted with a certificate having been served. 78 were granted with a certificate not being served and 35 were denied, dismissed or withdrawn.

Commencing December 6th, 1982 to June 3rd, 1983, we enclose herewith the resume of decisions and notices released from the Office of the Secretary of the Interstate Commerce Commission with the names of the Canadian carriers showing the I.C.C. number and the date of the publication of the decision marked and suitably identified.

In addition, we enclose herewith actual Certificates for the following carriers, which are self-explanatory:

DIRECT WINTERS TRANSPORT LIMITED
No. MC-37918 (Sub 16, 17, 18, 19)

CONSTABLE TRANSPORT LIMITED
No. MC-90511 (Sub 8)

ICL, INTERNATIONAL CARRIERS LIMITED
No. MC-86247 (Sub 31)

MOTORWAYS (1980) LIMITED
No. MC-110948 (Sub 7)

SMITH TRANSPORT (INTERNATIONAL) LIMITED
No. MC-86423

SMITH TRANSPORT (U.S.) LIMITED
No. MC-100463 (Sub 28)

TNT CANADA, INC.
No. MC-111307 (Sub 16, 18)

KINGSWAY TRANSPORTS LIMITED
No. MC-112908 (Sub 13)

LAIDLAW TRANSPORT LIMITED
No. MC-113784 (Sub 96, 95X)

HUSBAND, INC.
No. MC-115452 (Sub 6)

FREDERICK TRANSPORT LIMITED
No. MC-116519 (Sub 28 M1 F, 70F, 104)

DOMINION-CONSOLIDATED TRUCK LINES LIMITED
No. MC-127284 (Sub 5)

CANADIAN FREIGHTWAYS LIMITED
No. MC-116975 (Sub 4, 5)

CHO-BO, INC.
No. MC-126313 (Sub 11)

THIBODEAU-FINCH EXPRESS LIMITED
No. MC-129573 (Sub 4, 5)

MILLAR & BROWN LTD.
No. MC-133008 (Sub 1)

PEACE BRIDGE BROKERAGE LIMITED
No. MC-135828 (Sub 4)

GLENGARRY TRANSPORT LIMITED
No. MC-140833 (Sub 2)

CANADIAN PACIFIC EXPRESS & TRANSPORT, LTD.
No. MC-141603 (Sub 8, 9)

CANADIAN PACIFIC TRANSPORT (U.S.) LIMITED
No. MC-100463 (Sub 29)

TRANSPORT MCNEIL-MCGRATH, INC.
No. MC-142045 (Sub 2)

INTER-CITY EXPRESS, INC.
No. MC-145987 (Sub 1, 2)

SERVALL TRANSPORT LIMITED
No. MC-146998 (Sub 3)

TRANSX, LTD.
No. MC-153367F
No. MC-153367 (Sub 1)

BILL MCKEEN TRUCKING LIMITED
No. MC-153806 (Sub 2)

TRANS CANADA TRUCK LINES, INC.
No. MC-158601F

DON'S TRANSPORT CARTAGE (WINDSOR) LTD.
No. MC-159415

J. E. TRANSPORT, INC.
No. MC-162113

BILL THOMPSON TRANSPORT LIMITED
No. MC-166114

ALGOGEN TRANSPORT, INC.
No. MC-166343

It would appear that since the Motor Carrier Act of 1980 was enacted, a substantial number of motor carriers in Canada have made application to the Interstate Commerce Commission and have received appropriate authority.

It is respectfully submitted that the totality of these applications and especially the specific ones whose Certificates have been supplied herewith be taken into account by the Ontario Highway Transport Board in coming to an objective conclusion as to the nature of any impact which may occur as a result of an Application by an American carrier for operating authority in the Province of Ontario.

All of which is respectfully submitted.

HARVEY CAPP, Q.C.
Counsel for St. Johnsbury
Trucking Company, Inc.

July, 1983

The U.S. trucking industry's response to this problem, we believe, was one of reason and moderation. ATA petitioned the ICC to adopt a stricter entry policy on all applications for international operating authority, whether submitted by an American or a Canadian carrier. A bill, supported by ATA, was introduced by Senator Bob Kasten (R-Wis.), which would have done just that. The bill, however, was opposed by those who saw it only as a step back towards regulation.

Then, unfortunately, the ICC, exhibiting a complete misunderstanding of the industry's concerns, chose to investigate alleged discrimination on the part of the Canadian government and the provincial boards, rather than try to resolve the disparity issue. Ex Parte No. MC-157, Investigation into Canadian Law and Policy Regarding Applications of American Motor Carriers for Canadian Operating Authority, Notice of Proposed Rulemaking published February 11, 1982 [47 Fed. Reg. 7778], final decision published at 132 M.C.C. 870 (Oct. 8, 1982).

As a result of the Commission's administrative fiasco and the deregulationists' opposition to the Kasten Bill, the Congress enacted the moratorium legislation. Section 6 of the Bus Regulatory Reform Act of 1982, Pub. L. 97-261, 96 STAT. 1106-7 (Sept. 20, 1982). The President immediately suspended the moratorium with respect to the granting of interstate operating authority to Canadian carriers. Then, within 60 days of the enactment of the Bus Bill, the moratorium was suspended completely.

Following the lifting of the short-lived moratorium, the ICC completed processing of over 400 grants of operating rights authority to Canadian-owned or domiciled carriers. Most, if not all, of Canada's larger motor carriers, including nearly all Ontario carriers of any size, have received broad grants of U.S. operating authority during this period. In comparison, less than a handful of United States carriers have received authority in any Canadian province during this same period of time.[1]

The Bilateral Agreement

On November 24, 1982, U.S. Trade Representative, William E. Brock and Canadian Ambassador Allan Gotlieb, in an attempt to resolve some of the problems involving motor carrier transportation which exist between our two countries, to create a mechanism for resolving the remaining problems, and to meet the Congressionally-imposed requirements for the lifting of the moratorium negotiated a five-point bilateral agreement. The provisions of the agreement are that:

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[1] In many cases the authority that was received by the United States carriers in Canada resulted from the purchase of an existing Canadian carrier. Thus, while the party operating the authority may have changed the number of carriers operating in the market in question did not change. In contrast, the United States carriers are faced with over 400 new competitors, offering single-line service in a market where all except for a few U.S. carriers can offer, at best, only interline service. Further, the authorities of United States carriers operating in Canada are usually restricted to international traffic. The ICC, however, grants Canadian carriers authority to operate in both the interstate and foreign motor carrier markets. Thus, United States carriers are faced with increased competition not only for their traditional share of the transborder freight, but for domestic United States freight as well.

1. Both the United States of America and Canada are committed to improving the flow of commerce across their borders and believe that the availability of competitive, market-oriented motor carrier services can contribute to the efficiency of such commerce. *In this regard, it is the goal of both Governments that their respective motor carrier regulatory authorities maintain a policy of non-discrimination*.

2. Both sides subscribe to providing full, fair and equitable opportunities among truckers from both countries to compete for the carriage of international traffic. They recognize, however, that there are differences in the policies and economies of the two countries which may affect the competitive opportunities available to motor carriers. If these differences result in a major shift in the balance of trade in trucking services to the injury or detriment of an important segment of the industry, *the parties will use the consultative mechanism provided in section (5)*.

3. Both Governments welcome mutually beneficial investment in the motor carrier sector and confirm that their investment policies will favour economically efficient competition. Both Governments also confirm the desirability of *prompt processing of motor carrier applications* before the pertinent bodies and pledge their efforts to this end.

4. The two sides agree on the objective of expediting trade by means of the most efficient and economical transportation possible, including single-line service. In this respect, both sides will endeavour to *give significant weight to the needs and desires of shippers and consumers*.

5. The two sides agree to establish a consultative mechanism with a view to resolving problems which affect either or both countries in the trucking sector. This mechanism will include the Interstate Commerce Commission (ICC), the Canadian Conference of Motor Transport Administrators (CCMTA) at the Commissioner or equivalent level, the American Association of Motor Vehicle Administrators (AAMVA), and the Federal Departments concerned with transportation, foreign affairs, trade and other interested agencies. Subjects for discussion may extend to the full range of truck transportation problems, including taxes, registration, and standards. Both sides shall have the right to examine the operation of this understanding and request discussions pertaining to it. Either side remains free to take appropriate measures if, *after consultations through this mechanism*, the problems under discussion have not been solved to their mutual satisfaction. (Emphasis added.)

While the Ontario government has been quick to act under point two of the agreement, also stating its intent to utilize the mechanism provided by point five of the agreement, we in the United States trucking industry have seen no concrete evidence that Ontario or any other Canadian providence, intend to take any steps to implement the remaining points of the treaty calling for "full, fair and equitable opportunities among truckers from both countries to compete for the carriage of international traffic," "the desirability of prompt processing of motor carrier applications," and "to give significant weight to the needs and desires of shippers and consumers" in deciding the disposition of applications for motor carrier operating authority by the pertinent bodies.

We believe the provincial government, in good conscience, must be prepared to explain how it is fulfilling its obligation under all the points of the agreement. The agreement, designed to resolve the conflicts and disparity in the laws of our two countries, was intended to be implemented as a whole. The parties cannot merely pick those points of the agreement which currently suit them and ignore the rest.

The Trans-border Motor Carrier Market

The only reliable data available for consideration in this investigation is essentially the same facts ingrained in the earlier MC-157 proceeding. This is the traffic data for the year 1980 from the study carriers of the Niagara Frontier Tariff Bureau (NFTB). This traffic data includes some U.S.

domestic freight movements, Canadian domestic movements and international traffic both from the U.S. to Canada and from Canada to the U.S.

Our analysis and response to this data will include a response to the "statistical review" prepared by Adil Cubukgil, University of Toronto, and submitted to the OHTB in the Roadway-Harkema Express Lines, Ltd. proceeding. While Cubukgil's analysis considered only the entry of Roadway Express into the trans-border market, ATA, because of its inability to observe the hearing in this proceeding or study the statements submitted by other parties will assume that the Cubukgil study is typical of the arguments submitted in the instant proceeding which oppose further grants of motor carrier operating authority by OHTB to United States carriers.

The basic NFTB data establishes that U.S. carriers are disadvantaged in the handling of international traffic. Moreover, these statistics predate the recent substantial entry of Canadian carriers into the United States. First, in terms of revenues, less than 35 percent of the international traffic between the two countries originates in Canada, but Canadian carriers received 45 percent of the international revenues. In other words, while United States industries originated 65 percent of the traffic revenue United States carrier received but 55 percent of the revenue. This is a revenue disparity in favor of Canadian carriers.

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Secondly, NFTB statistics show that carriers in the NFTB study which were both Canadian-owned and domiciled received revenues of over $10.5 million from United States domestic traffic in 1980. On the other hand, United States-owned and domiciled carriers received no revenue dollars whatsoever from Canadian domestic traffic.

Unfortunately there are not more up-to-date statistics. However, given the recent flood of grants of United States authority to Canadian carriers, the Canadian share of the revenue split has undoubtedly grown even greater since 1980. At the same time, United States motor carriers have witnessed severe business declines in 1981 and, again, in 1982. United States motor carrier costs continue to escalate faster than revenues, squeezing profits to where the profit margin in 1982 was but 0.5 percent of revenues -- the worst year in history for United States carriers. Tonnage handled by United States carriers, which was at depressed levels in 1980 continued to fall in both 1981 and 1982 -- the 1982 decline by 10.8 percent. Ironically, while United States motor carriers can ill-afford any further tonnage declines or tonnage erosion from new competition from Canadian carriers, the OHTB is the one conducting a full scale investigation of negative impact of "foreign" carrier entry.

An "impact" analysis of the Canadian carriers' intrusion into United States markets, based upon the ICC's broad approval of Canadian authorities, would show that all major Canadian carriers are presently authorized to serve in the United States. Viewing their impact in the aggregate, it is, then, far more probable that the 10, 20 and 50 major Canadian carriers could, in fact, siphon away another 25 percent of the joint-line LTL and TL traffic of concern. Consider then the type of impact proposed by Cubukgil on the trans-border market, but from the perspective of the United States industry:

- Since international revenues represent an important portion of the business for those involved, these U.S.-owned carriers will have serious difficulties coping with the loss of joint-line traffic to Canadian carriers. If, for example, Canadian carriers capture one-quarter of the markets identified above (i.e., joint-line LTL and TL), U.S. carriers would lose 37% of their international revenues. Canadian carriers would be expanding their existing operations by only 11%.
- Canadian carriers' entry into the international market will, of course, change the existing 45-55 percent split between Canadian- and U.S.-owned carriers. A 10% penetration by Canadian carriers into the $338 million joint-line market identified above will tip the balance by 8% in favour of Canadian-owned carriers and in fact give them the majority of the international revenues.

But the concern of the OHTB is not for the effect that Canadian carriers will have on the United States industry, but the reverse. Let us be realistic; United States carriers have no secret competitive weapons or strategies, nor do they nor can they strong-arm shippers to use their services. United States carriers will be in no better a position than their competitors, be they Canadian or American. If a United States carrier's price/service package is inferior to that offered by other competitors, they would not achieve any inroads whatsoever in the trans-border traffic. Even if two carriers offer equivalent prices and services, this instant hue and cry may lead to Canadian shippers using Canadian carriers.

Consider the other alternative and its implications -- that the United States carriers offer the superior price/service package. What implications does this hold for Canada? The competitive posture of Canadian shippers (i.e., producers) would be enhanced in the international marketplace by receiving better rates and/or service than now available. This would help assure the shippers' continued stability at the minimum as well as increase the shipper's possibility of growth opportunities -- in turn resulting in more Canadian or more specifically, Ontario job opportunities, more investment and other economic benefits. Further, cannot and should not Canadian carriers adjust to meet or beat the competition? Are these not the desired aspects of the five-point agreement reached between our countries a few short months ago? The alternative -- that OHTB force Canadian shippers to use carriers offering inferior prices and/or service options, has far more negative long-term implication for Ontario than short-term lost tonnage for a few carriers.

Finally, It is our concern that any ruling or action taken by the Ontario Highway Transport Board which would result in a "substantial prohibition" on the grant of authority to carriers from the United States could result in a reimposition of the moratorium by the ICC with respect to carriers domiciled in Ontario (or elsewhere in Canada). It would be unfortunate for all concerned if further escalation rather than resolution of the issues confronting our two countries, their respective trucking industries and users of those industries should result from this proceeding. We look forward to a sensible resolution of concerns and an ability to work toward the future rather than a retreat to a hard line stance and bitter feelings of the recent past.

CONCLUSION

It is quite apparent from the available statistics that the historic advantage in trans-border traffic has been with the Canadian carrier. It is the Canadian carrier which has received a greater share of the revenues than are justified by the amount of trans-border traffic generated from Canada. This historic advantage has been further amplified by the open entry policy of the Interstate Commerce Commission under the Motor Carrier Act of 1980. Hundreds of new Canadian competitors have entered the trans-border and domestic United States markets, offering single-line service between Canadian and United States points, in competition with United States carriers who can, with few exceptions, offer only inter-line service because of their limited and narrowly drawn Canadian provincial operating authorities (if the U.S. carrier has any Canadian authority at all).

Based on the foregoing facts, ATA submits that no harm will result to the Ontario trucking industry by a continuation of the existing provincial policies on motor carrier entry

In fact, no harm is likely to occur to Ontario carriers even if the provincial Board should decide to emplement all the provisions of the Five Point Agreement.

Therefore, ATA urges the Ontario Highway Transport Board and the Minister of Transportation not to take any unjustified action that would result in discriminatory practices against United States-owned and domiciled carriers with regard to the licensing policies of the OHTB.

Respectfully submitted,

AMERICAN TRUCKING ASSOCIATIONS, INC.

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SCHEDULE L

Results of applications for operating authority between Ontario and the United States of America for the calendar year 1982.

Status	(a) by U. S. of A. based carriers	(b) by Ontario based carriers
App. made	132	99
App. pending	22	23
App. completed	110	76
App. granted	110	71
App. denied	nil	5
% granted	100%	93.42%
% denied	nil	6.58%

These figures do not include:

(a) applications not proceeded with by the applicant, Class L, and Class Y applications, or

(b) technical applications for licencees seeking additional time to file the complementary authorities required from foreign jurisdictions.

POOR

QUALITY

ORIGINAL